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SOME RECENT CONTRIBUTIONS TO A MACRO-ECONOMIC THEORY OF INCOME DISTRIBUTION[1]

I

In the days before Keynes, distribution theory had its recognised place side by side with price theory. The marginal productivity theory provided an explanation of (unit) factor incomes and also, so it was believed, of factor demand and factor employment. This should also have provided the basis for total factor incomes—nothing but unit incomes times units employed—and factor shares.

The Keynesian employment theory shattered the belief that total employment could be deduced from an addition of all sectional marginal productivity schedules. In *aggregate* analysis these schedules are no longer independent of the prices paid to factors and can, therefore, not be treated as independent variables. Aggregate effective demand was introduced as the main determinant for the volume of employment. By concentrating on *aggregate* demand the question of income *distribution* had faded into the background. To be sure, distribution problems loomed large in the economic policy debates that were stimulated by Keynes and his school. The influence of distribution on consumption and total demand was duly noted. But what really causes the main income shares to be what they are was a question which Keynes did not attack. On the whole he seems to have accepted the traditional marginal productivity approach without realising that with his new theory about the determinants of employment he had undermined the foundations of the old micro-economic distribution theory. For aggregate demand determines factor employment and incomes

[1] Based on a paper read before members of the Economics Departments at Glasgow and Manchester University in 1960.

and the distribution of these incomes in turn influences the level and structure of aggregate demand.

The Keynesian theory thus provided a challenge for a reconsideration of the distribution problem. In this respect the situation was not unlike the one in the field of economic growth. Here, too, Keynes with his stress on the need for net investment had laid the foundation for a problem which he himself did not follow up but which awaited treatment.

It took less than three years after the publication of the *General Theory* for important contributions to appear in both these fields: Kalecki's article on the share of wages in the national income[2] and Harrod's essay in dynamic theory.[3] Both these contributions suffered from the date of their appearance; the ensuing war left little time for basic discussions on economic theory. A flicker of interest was shown here and there, but it was not until after the war that these post-Keynesian developments could expand more organically.

Growth theory quickly conquered the centre of the stage. In distribution theory the search for a new approach has been less forceful and less systematic. But here, too, the literature has grown in recent years. Its place in the body of 'recognised' theory is, however, far less established than that of growth theory. At the American Economic Association meeting of 1952, where Boulding made a heroic attempt to 'sell' his new macro-economic distribution theory, Fellner had the participants in the discussion pretty much on his side when he said:

> 'By contemporary distribution theory we presumably mean a qualified marginal productivity theory; that is to say, a combination of the marginal productivity theory with other analytical elements.'[4]

Since then quite a number of new macro-economic distribution models have been put forward. Although—as we shall see later—they all still suffer from serious shortcomings, they can no longer be overlooked, and they tend to become part of contemporary distribution theory. In the following pages the characteristics of some of these models will be exhibited. There is no attempt at completeness and the choice of theories is rather random. It is hoped that the chosen models will give a fair indication in what directions the winds are

[2] M. Kalecki, 'The Determinants of Distribution of the National Income', *Econometrica*, April 1938.

[3] R. Harrod, 'An Essay in Dynamic Theory', *Economic Journal*, April 1939.

[4] William J. Fellner, 'Significance and Limitations of Contemporary Distribution Theory', *American Economic Review*, Papers and Proceedings (May 1953).

blowing at present. Also, in order to keep the length of the paper within reasonable limits it was necessary to strip the theories that were included to their bare essentials in order to make the basic argument visible. This is rather unfair on the authors who often have significant things to say when it comes to modifying and elaborating their basic results. But in a broad survey this is unavoidable and the concentration on essentials may help to bring out more clearly the points of contact and the differences between the various theories.

II

Let us start with Kalecki's theory, it being chronologically the first in the field among the contributions dealt with in this paper. Kalecki's theory of the share of wages in the national income was actually a by-product of his special approach to the theory of the firm. Basing his approach on empirical observations of the cost function and the pricing process in manufacturing in the thirties, Kalecki abandoned the traditional U-shaped average cost curve of the firm. Instead he assumed that normally firms operate at a level below full capacity, and that at this level average and marginal prime costs per unit of output are more or less constant. Additional units of output can be produced with the existing plant by applying additional workers and raw materials more or less in the same proportions as before.

With conditions like this the marginal productivity of production workers within a firm becomes constant. Instead of a falling marginal productivity curve representing the demand for labour and determining the level of employment (by being equated to the wage level) we obtain a horizontal marginal productivity curve. The number of workers employed will depend on the level of output and this in turn will depend—since we deal with a world of imperfect competition—on the firm's pricing policy. Since the number of workers and therefore the wage bill for the production workers (roughly the manual labour force) is taken as approximately proportional to output, the *share* of wages in a firm's output will be given by the share of wage costs in the value of (each unit of) the product.

This, then, is the industrial setting for Kalecki's distribution theory.

Let us now see which elements he isolates for special consideration in order to explain the main determinants of distribution. Before doing this let me just say a few words about two different stages in model building between which we should draw a clear line of distinction. In many theories—and this is true for most of the macro-economic income distribution models I shall discuss—one first splits

up some economic aggregate into certain parts. This splitting up is usually based on the definitions used and does not give us any new knowledge of the outside world. It just yields certain identities, as, for instance, Keynes' sub-division of income into consumption and investment: $Y \equiv C + I$. Here C and I are so defined that they are necessarily equal to Y. Such identities, since they do not tell us anything about real events, cannot be judged by the terms 'true' or 'false'. Rather we can regard them as 'useful' or 'not useful'. They are useful if we can find empirically valid rules for the sub-parts so created. If we can, for instance, find certain 'laws' for consumption and investment behaviour, then the splitting up of income into these two components (rather than into some other of a host of possible sub-divisions) will have been 'useful' and will have opened the way towards an empirically valid theory.

These remarks do not contain anything that has not been known in the field of methodology. If I repeat it here it is only because the distinction between these two stages in model building seems to me to be particularly important in connection with the theories we are discussing at present. The attempts in this field are still at a very early stage and most of the writers are still experimenting with different ways of grouping and re-grouping a few economic aggregates. The laying down of a few fundamental identities is, therefore, still the main content of these theories while the empirical part is usually only sketched in outline and rather under-developed. This has sometimes led to an accusation that these theories are purely tautological.[5] This attack is, however, in most cases unjustified. It is usually a consequence of failing to recognise the positive part played by identities in the formulation of a theory, or of overlooking the empirical elements which most of these theories contain. In order to reduce the occurrence of this kind of misunderstanding I shall occasionally try to draw a rather sharp line between the formal apparatus and the empirical 'laws' in some of the theories, even though the authors did not always regard it necessary to keep the two kinds of argument separate.

After this interlude let us return to Kalecki's model.[6] Let us call

[5] With regard to Kalecki this criticism can be found, for instance, in P. T. Bauer, 'A Note on Monopoly', *Economica*, N.S. Vol. 8 (1941), p. 201; A. Mitra, *The Share of Wages in National Income* (Rotterdam, 1954), pp. 29 f.; and to some extent also in N. Kaldor, 'Alternative Theories of Distribution', *Review of Economic Studies*, Vol. XXIII, pp. 92 f.

[6] In what follows I am not using Kalecki's original formulation of his theory, but the revised form which he used in his *Theory of Economic Dynamics* (1954).

the wages spent by a firm on production workers W, and the amount spent on raw materials M. The prime costs of the firm are, therefore, (W+M). The price-setting process is assumed to take the form of adding a margin to unit (prime) costs. Prime costs per unit are multiplied by a factor, say k ($k>1$), to give the price of the commodity. Since we have assumed that prime costs are constant, the multiplication of total prime costs by k will give us the gross value of the firm's output: k(W+M). The margin over (W+M) so created is called 'gross profits' out of which the salaries of non-production workers, interest, depreciation, and net profits have to be covered. Gross profits will be higher, the higher the value of k. k in its turn will be higher, the higher the 'degree of monopoly'. The 'degree of monopoly' is a catch-all phrase for a number of influences making for a higher k (a higher margin), but this special terminological choice has some justification in previous monopoly literature.[7]

With a gross value production equal to k(W+M), and W paid out to the workers and M to the raw material producers, gross profits (as defined above) are equal to (k−1)(W+M). If we leave out of account the expenditure for raw materials, which goes to previous stages of production, we obtain the gross value added (wages plus gross profits) for the firm: W+(k−1).(W+M). We can now write down the share of wages (for production workers) in the gross value added. Let us call this share w. We have $w=\frac{W}{W+(k-1).(W+M)}$.

Dividing numerator and denominator by W, and writing j for $\frac{M}{W}$ we obtain

$$w=\frac{1}{1+(k-1)(j+1)}$$

From this it can be seen that the share of gross income going to (manual) wage-earners will depend on the 'degree of monopoly' (k) and the relative changes in raw material prices to wage expenditure (j). The higher the degree of monopoly or the worse the 'terms of trade' between raw materials and wage-earning labour the lower the

[7] In an article 'The Concept of Monopoly and the Measurement of Monopoly Power', *Review of Economic Studies*, Vol. I, pp. 157 ff., A. P. Lerner defined the 'degree of monopoly' by the ratio $\frac{p-m}{p}$, where p is the price and m the marginal cost of the product. In the Kalecki case the margin created by k is p−a, where a equals average prime cost. But since Kalecki assumes constant average prime costs, average and marginal costs coincide and p−a=p−m. Thus, at least when the firm is in equilibrium (marginal revenue=marginal cost) and has a cost structure as stipulated by Kalecki, Kalecki's k will be directly connected with Lerner's 'degree of monopoly.'

share of wages and vice versa. When one adapts this model for the economy as a whole (excluding the public sector) a further factor is added, which plays a role in determining the wage share: the industrial structure. According to the size of different industries, their k's and j's will have different weights and this will influence the global picture.

So far we have not moved beyond the elements which were already contained in our initial position. Granted Kalecki's model of the

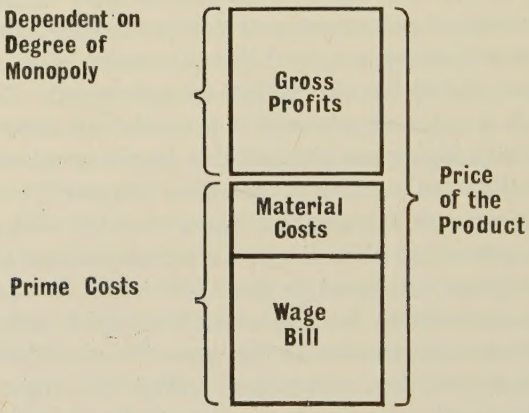

FIG. 1

firm, the determinants of the wage share as given above follow directly from the definitions of gross profits and the degree of monopoly. This can be seen immediately with the help of a simple diagram. In Fig. 1 the price of a product is split up into the parts discussed before. W and M are defined as before and GP stands for gross profits. It can be seen without difficulty that with this subdivision the share of wages in the gross value of the product (W+GP) will depend on GP (degree of monopoly) and the relation between M and W within the prime cost sector. Since these cost relationships are assumed to hold independently of the level of output the same relationship holds for the total production of the firm.

To this formal, 'tautological' framework Kalecki adds fragments of an 'explanatory' theory. With regard to long run tendencies it is maintained that the degree of monopoly will tend to rise owing to the growth of concentration, and the increase in fixed costs, selling and distribution costs. This tendency will, however, be slowed down or checked by the increase in trade union power. Nothing is contained in Kalecki's theory on long-run trends in raw material prices (relative to wages) and in industrial structure. This is somewhat surprising,

since at least with regard to the development of industrial structure several hypotheses have been suggested by empirical data which could have been tentatively incorporated into Kalecki's theory of the wage share. As the theory stands it is what we might call an 'open' theory, trying to explain some of the components but leaving others unexplained so that no rounded picture of past events or prospective future developments can be obtained.

Kalecki is a bit more explicit when he turns to the cyclical picture. The apparent stability of the wage share during the cycle he regards as the outcome of opposite movements in the degree of monopoly and raw material prices. In the depression the degree of monopoly (i.e. the gross margin over prime costs) is raised in the attempt of firms to recover as much as possible of their fixed costs over the smaller volume of output. A higher degree of cartelisation may be attempted to achieve this end. On the other hand raw material prices tend to fall more rapidly than wages in the depression, thus counterbalancing the depressive effect which the rising degree of monopoly exercises on the wage share. There is also a hint in Kalecki's treatise that structural changes during the cycle will tend to lower the wage share during the depression.[8] But this passage is not very convincing.

Kalecki's theory has not created a 'school', but the interpretation of the empirical material in some other works has been stimulated by it. Thus Dunlop,[9] investigating the stability of the wage share in the American cycle of the thirties, refers his results to Kalecki's framework and points out that structural changes between industries played a major part in maintaining stability, covering up considerable changes in the wage share within some industries.

Phelps Brown and Hart,[10] who start with an empirical investigation of the same type of income distribution as Kalecki's (wages without salaries as share of total income), add some theoretical remarks to their results which seem to me to be akin to the Kaleckian framework (though the authors would probably not share this opinion).

They distinguish between two major long-run developments influencing the share of wages in national income. Firstly, there has been a movement from the 'stable' income groups (rent, contractual

[8] *Theory of Economic Dynamics*, p. 38. See also my article 'Der Lohnanteil am Gesamteinkommen', *Weltwirtschaftliches Archiv*. Vol. 78, Nr. 2 (1957). p. 166, footnote 4.

[9] J. T. Dunlop, *Wage Determination under Trade Unions* (Oxford, 1950).

[10] E. H. Phelps Brown and P. E. Hart, 'The Share of Wages in National Income', *Economic Journal*, Vol. 62 (1952). See also E. H. Phelps Brown, 'The Long-Term Movement of Real Wages' in J. T. Dunlop (ed.), *The Theory of Wage Determination* (London, 1957).

interest, salaries) to wages and profit. Secondly, there are occasional shifts in the wage-profit relationship itself. Usually this relationship is stable because price policy is governed by prevailing ideas about 'normal' profits. But at certain times changes in the 'normal' relationship occur. Whether such changes take place and in which direction they go will depend on the state of the market environment and of trade union activity. The market environment can be 'hard', when it is difficult or impossible to pass on cost increases, or it can be 'soft', when cost increases can be passed on fairly easily. An active trade union policy combined with a hard market environment will produce a certain squeeze on profits and increase the share of income going to wages. Conversely, weak trade unions and a soft market environment will lead to a lower wage share. While the remaining combinations (strong unions and soft environment or weak unions and hard environment) will have little effect on relative shares.

It will be seen that this is more in the nature of a classification which helps to explain the course of past events rather than a guide for forecasting the future. For nothing is said about the economic or sociological 'laws' which make for militant or timid trade union action, for hard or soft market environments.[11] If one tried to tighten these elements up into a more formal model the relationship to Kalecki's model would become apparent. The first factor—changes in rent and interest payments—is of direct significance for the degree of monopoly. Trade union action appears explicitly in both models. And Phelps Brown's and Hart's catch-all category, the rather vaguely defined 'market environment', refers in addition to one of Kalecki's strategic variables (raw material prices) to a number of economic phenomena which are equally important in the shaping of Kalecki's 'degree of monopoly' (technical changes, cartel agreements, monetary policy etc.).

III

Kalecki aimed at a macro-economic theory of distribution. But like the marginal productivity school he starts at the micro-economic level: the single firm. The categories he uses do not, however, land him in the sort of adding-up problems which make the extension of marginal productivity reasoning to the entire economy such a doubtful procedure. Raw material prices and pricing policy do not become so

[11] In his later essay, mentioned in the previous footnote, Phelps Brown suggests that the trend of raw material prices has a decisive influence on the market environment. Falling raw material prices lead to a hard, rising raw material prices to a soft market environment.

irritatingly shiftable as marginal productivity schedules when we drop the 'ceteris paribus' clause of sector analysis.

Kalecki's departure from the neo-classical distribution theory was then not so much the result of a deliberate search for a macro-economic distribution theory, but rather a macro-economic theory developing out of his changed assumptions about the theory of the firm. In this respect it differs from the distribution theories to be discussed in the following pages, which all aimed *directly* at a macro-economic theory. What Kalecki has in common with these theories (apart from the macro-economic end-stage) is the disappearance of marginal productivity as a basic and explicit explanatory variable. Kaldor's puzzled remark in connection with his 'Keynesian' distribution theory (to be discussed presently): 'I am not sure where "marginal productivity" comes in in all this'[12] could just as well have been uttered by Kalecki.

IV

I turn now to some of the immediately macro-economic distribution models, which owe their inspiration directly to the aggregates and the mode of macro-economic thinking introduced and revived by Keynes. With Kaldor we might therefore call them Keynesian distribution models.

As far as I am aware the first attempts in this direction originated some ten years ago with Boulding and Hahn.[13] Both these theories remained—in spite of their new approach—without much echo. This was mainly due, I believe, because they were presented in a context which made them *unnecessarily* clumsy and complicated looking. Both these authors did not just present a new distribution model, but did so in connection with some major reform they wanted to see in the basic assumptions of economic theory. Boulding felt that the role of assets requires far greater stress, while Hahn wanted to switch from a profit-maximising entrepreneur to one who maximises an index of utility. These 'innovations' were not essential to the distribution theories of the two authors. But these were cast in the terminology necessitated by the new approach. And since the need for such a new approach did not become convincing in either case,

[12] N. Kaldor. 'Alternative Theories of Distribution', *Review of Economic Studies*, Vol. XXIII (2). 1955/6, p. 100.

[13] K. Boulding. *A Reconstruction of Economics* (New York, 1950). Ch. 14. Boulding produced a slightly modified version of his model in 'The Fruits of Progress and the Dynamics of Distribution', *American Economic Review*, Papers and Proceedings (May, 1953), and in D. McCord Wright (ed.). *The Impact of the Union* (New York, 1951). F. H. Hahn, 'The Share of Wages in the National Income', *Oxford Economic Papers* (June 1951).

the distribution theories suffered from the unhappy circumstances under which they were born.

A few years later other writers, like Joan Robinson, Kaldor, Schneider, dealt with the distribution problem in the more familiar setting of Keynesian and economic growth theory. Their models were simpler in form and easier to assimilate on the basis of 'accepted' doctrine. On closer inspection they show, however, a definite family resemblance to the earlier pioneer work.

I do not intend here to follow the chronological order. Rather I am going to start with a simple exposition of the (already simple) Kaldor[14] model in order to show the essentials of the 'Keynesian' approach, and will then refer to some other models—irrespective of the time of publication—in order to indicate the variety of assumptions and conclusions that are at present connected with this approach. In order to facilitate the argument I shall use, as far as possible, the same symbols in all the models I am going to discuss. The connoisseur of economic literature will not be surprised to hear that in the original articles the choice of symbols is indeed wide.

V

A common characteristic of the current 'Keynesian' distribution theories (and Kalecki's) is that they restrict themselves to a split-up of total income into two categories. This restriction is not an essential attribute of these theories, but it greatly simplifies the construction of the basic model. The subdivision is not the same in all cases. Kalecki, as we saw, distinguishes between wages of manual labour and gross profits, which embrace all other incomes (including salaries). Kaldor starts with the familiar division between wages (including salaries) and profits. The two together make up total income so that we obtain the obvious identity

$$Y \equiv W+P \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad (1)$$

where Y represents income, W wages, and P profits.

We further have the familiar Keynesian identity between ex-post savings (S) and investment (I):

$$I \equiv S \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad (2)$$

In contrast to Keynes' concentration on the savings and saving propensities of the total community, we distinguish now between savings

[14] Kaldor's distribution theory was developed in two stages. A first exposition appeared in 'Alternative Theories of Distribution', *Review of Economic Studies*, Vol. XXIII (2). It was then adapted and incorporated in his 'Model of Economic Growth', *Economic Journal* (December 1957).

of wage-earners (S_w) and profit earners (S_p). This yields us still another identity:

$$S \equiv S_w + S_p \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad (3)$$

The savings of the two population groups will depend on their respective incomes and saving propensities. If we denote the (average and marginal) saving propensity of the workers by s_w and the propensity of the capitalists by s_p we obtain:

$$S_w = s_w W \qquad S_p = s_p P \quad . \quad . \quad . \quad . \quad . \quad (4)$$

These basic relationships are the building bricks of Kaldor's distribution model.

Substituting (3) and (4) in (2) and removing W with the aid of (1) we obtain:

$$I = S = s_p P + s_w W = s_p P + s_w (Y - P) = (s_p - s_w) P + s_w Y \quad . \quad (5)$$

Next we divide (5) by Y:

$$\frac{I}{Y} = (s_p - s_w) \frac{P}{Y} + s_w \quad . \quad . \quad . \quad . \quad . \quad . \quad (6)$$

or

$$\frac{P}{Y} = \frac{1}{s_p - s_w} \cdot \frac{I}{Y} - \frac{s_w}{s_p - s_w} \quad . \quad . \quad . \quad . \quad . \quad (7)$$

i.e. the share of profits (and similarly of wages) in total income depends on the sectoral savings propensities and on the volume of investment (*total* income being given).

This much is obtained from the definitions and the way the aggregates were split up. What, then, are Kaldor's ideas about the behaviour of these elements? From equation (7) it will be obvious that the whole system depends on the condition that $s_p \neq s_w$. This condition is implicit in Kaldor's theory since he assumes that the adaptation of savings to a given volume of investment is achieved *at a given total income level* by income shifts from low savers to high savers and vice versa.[15] This is in contrast to the Keynesian adjustment process which takes place (on the basis of a single savings propensity) via expansions and contractions of total income. The assumption that $s_p \neq s_w$ is not difficult to swallow. In fact, by assuming that $s_p > s_w$ one refers to the empirically acceptable proposition that profit-earners save a higher proportion of income than wage-earners. Kaldor, however, does not only stipulate that the saving propensities of wage

[15] The shifts come about by changes in the price-wage relationship. Higher investment expenditure will send up prices. This will mean higher profits and therefore a greater savings ratio out of a given total real income. The process will continue until total savings equal the new and higher investment level. The opposite movement would apply when investment is reduced.

and profit earners differ; he also assumes—and this is far less self-evident—that these propensities are fairly stable in the long run.[16]

If we can take the saving propensities as data given from 'outside' the system, then—as can be seen from equation (7)—the income distribution is solely dependent on investment as a proportion of income. In his first essay Kaldor still considered the possibility that the profit-wage relationship may influence the capital-output ratio.[17] $\frac{I}{Y}$ would then not be independent of $\frac{P}{Y}$, and there would be no unique one-way causal relationship between investment ($\frac{I}{Y}$) and income distribution ($\frac{P}{Y}$). But Kaldor dismissed this problem by *assuming* a constant capital-output ratio (independent of the profit-wage relationship). In his later article on economic growth this assumption is made an integral part of his theory with the help of a technical progress function which independently determines a stable long-run capital-output ratio. Granted Kaldor's 'behaviour' assumptions—full employment in the long run, 'psychological' determination of the saving propensities, 'technological' determination of the capital-output ratio[18]—we obtain a complete theory of income shares. How far these assumptions *should* be granted is another matter.[19]

To this basic model Kaldor adds two minimum constraints. Real wages cannot fall below the 'subsistence minimum', the profit rate must not fall below the 'risk premium rate'. I must confess that I find a bare statement of this sort rather unsatisfactory. If the (rather vague) terms 'subsistence minimum' and 'risk premium rate' are defined near their absolute feasible minimum, the statement about the constraints is probably beyond reproach but it also becomes rather uninteresting. For these limits will normally not come into play in a developed capitalist economy. If, on the other hand, subsistence and risk premium are so defined as to include historically acquired standards, then they may very well play an active role in the distribution process. But if this is so it is not sufficient for a realistic distribution theory to state that they act as constraints. It is

[16] And also in relation to the income level. This assumption enables him to equate the average and marginal propensities to save.

[17] The influence would be brought about via the choice of different techniques of production.

[18] The capital-output ratio together with the full employment assumption and an investment function yields a unique value for the 'equilibrium' volume of investment.

[19] I have offered some doubts in this respect in 'The Limitations of Economic Growth Models', *Kyklos*, Vol. XII, Nr. 4 (1959).

necessary to show how these constraining standards are formed in the struggle for wages and profits.

VI

Now that we are familiar with the basic structure of a 'Keynesian' distribution model we can deal rather briefly with some other specimens of this category. Let us first return to the previously mentioned pioneer effort by Boulding.

Boulding divides total income into wages and non-wages, the latter comprising profits, rent, interest. For simplicity's sake we shall use again P to denote non-wages. Thus we have, as before,

$$Y \equiv W+P \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad (7)$$

But Y must be either consumed or invested, so we have also

$$Y \equiv C+I \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad (8)$$

Now, both consumption and investment will depend on income. Not just on total income (Y) as in the pure Keynesian model, but also on the distribution of the total. Thus we get the level of consumption and investment as functions of the level of wages and non-wages:

$$C = F_c(W,P) \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad (9)$$

$$I = F_i(W,P) \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad (10)$$

In the search for a 'prime mover' for this basic set-up Boulding presents a further division of non-wages into business *distributions* (dividends and interest) and business *savings* (internally financed investment,[20] increased money holdings, loans to consumers). Introducing these elements into our system we obtain two further relationships (writing D for business distributions, dM_b for the additions to business' money holdings and dK_b for increased credit to consumers, and I_n and I_e for internally and externally financed investment):

$$P = I_n+D+dM_b+dK_b \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad (11)$$

$$W = Y-P = C+I-I_n-(D+dM_b+dK_b) \quad . \quad . \quad . \quad . \quad . \quad (12)$$

or (since $I-I_n = I_e$)

$$W = C+I_e-(D+dM_b+dK_b) \quad (12a)$$

Here we are still in the realm of identities as can be easily seen when we simplify equations (11) and (12a) by setting dM_b and dK_b equal to zero (i.e. assuming there is no increase in the money stock and consumer credits of business firms). We obtain then

$$P = I_n+D \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad (13)$$

$$W = I_e+(C-D) \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad (14)$$

[20] Externally financed investment corresponds to savings by households.

Equation (13) says that non-wages are equal to capitalists' savings and consumption, and equation (14) that wages are equal to workers' savings and consumption.[20a]

The specific contribution of Boulding is that he regards the (exogenously given) business behaviour with regard to self-finance, dividend payments, liquidity, and consumer credit as strategically decisive. The higher, for instance, the payment of dividends and interest[21] (i.e. the lower the propensity to save out of non-wage incomes), the higher will be the level of profits, *the volume of investment being given*.

This follows from the same logic which we encountered in Kaldor's model. Since the adjustment of savings to (a given amount) of investment does not take place via changes in the volume of employment (the Keynesian case), it has to be achieved by shifts from low-saving wage-earners to more-saving profit-earners. If business saves *comparatively little* (though still more than workers) the shift to profits will have to be *greater* in order to reach a given level of savings. This is the basic cause for the 'widow's cruse' character of these theories.[22] In fact the *formal* similarity between Boulding's and Kaldor's models is quite easily shown. Taking Boulding's formulas in the simplified form to which we have reduced them,[23] we have

$$Y = W+P$$
$$P = I_n+D$$
$$W = I_e+(C-D)$$

Now, I_n and I_e will depend on the savings propensities of the two income sectors:

$$I_n = s_pP\,; \qquad I_e = s_wW \qquad (s_p > s_w)$$

For a *given* level of investment we have

$$S = I = I_n+I_e = s_pP+s_wW = s_pP+s_w\,(Y-P) = (s_p-s_w)\,P+s_wY$$

which is the same as equation (5) from which we derived Kaldor's profit share equation.

But what about *the material* side of Boulding's explanation? As we said before, he puts all the emphasis on business decisions with regard to the division of receipts between dividends, self-finance, liquid holdings, etc. Even if we accept for the moment that these decisions possess central significance, a 'full' theory would have to tell us by

[20a] We assume for simplicity's sake that all the capitalists' savings are made via undistributed profits and that dividend and interest payments are used for consumption.

[21] Which Boulding largely regards as transfer payments.

[22] See Melvin W. Reder, 'Alternative Theories of Labor's Share' in *The Allocation of Economic Resources*, Essays in Honor of B. F. Haley (Stanford, 1959).

[23] Equations (13) and (14) on p. 185.

what behaviour rules they are shaped. Here, however, Boulding lets us down. When he deals with long-term growth, this is what he has to offer:

> 'What emerges . . . from the analysis is a concept of long-run dynamics which is much less deterministic than that of the classical, the Marxist, or the marginal school. The historical movement of the relative shares is determined by how people behave and is not predetermined by any iron physical laws.'[24]

Now, this seems to me to be (a) too defeatist, and (b) rather hard on the Classics and Marx. It is defeatist because it seems to draw too sharp a line between physical laws and (purely volatile?) human behaviour. Of course, income distribution will depend on people's behaviour (within a certain physical and institutional environment). But to find the regularities of this behaviour—call them 'social laws', if you want—is the task of a useful distribution theory. The nineteenth century macro-economic theories were based on some definite and simplified assumptions with regard to people's behaviour in the production process and not just on 'physical laws'. These (and the capitalist mode of production) only circumscribe the radius of action open to the individuals and groups participating in the economic game.

If Boulding had tried to delve a bit deeper into the forces that influence the business decisions he regards as decisive, his theory would link up with most of the other recent attempts in this field. Take, for instance, the decision on dividend policy. This will obviously be strongly influenced by factors like trade union action, market structure, role of managers, ideas about 'normal' profits, all of which loom largely in one or the other of the modern distribution theories.[25]

VII

Let me now turn to two further distribution models which are in the 'Kaldor' category. The first one is by Schneider.[26] It is inter-

[24] Kenneth Boulding, 'The Fruits of Progress and the Dynamics of Distribution', *American Economic Review*, Papers and Proceedings (May 1953). p. 480.

[25] In his *Reconstruction of Economics* (p. X) Boulding writes: 'The distribution structure is thus seen to be the result not of wage bargaining (except in so far as wage bargains react on the prime determinants) but of various decisions in regard to investment, consumption, finance, and liquidity.' Why the decision about investment should be more *prime* as a determinant than the wage bargain influencing this decision I fail to see, unless we take the formal construction of Boulding's model as an absolute standard for classifying the real world.

[26] Erich Schneider, 'Einkommen und Einkommensverteilung in der makroökonomischen Theorie', *L'Industria*, 1957, No. 2. (An English translation appeared in *International Economic Papers*, No. 8, 1958).

esting, because a comparison of this model with Kaldor's shows how slight differences in the underlying assumptions can focus attention on quite different adjustment processes in the economy.

Basically (and after some manipulation) the structure of Schneider's model resembles closely that of Kaldor. He distinguishes between non-entrepreneurs receiving contractual incomes and entrepreneurs who receive residual incomes. In line with our previous notation we shall call the former W and the latter P. Savings and consumption of both groups will again depend on their incomes, and ex-post savings will be necessarily equal to ex-post investment. Schneider distinguishes in this context between intended and unintended savings and investment.[27] As long as unintended savings and investment exist the economy will be in a state of disequilibrium. Only when they disappear will equilibrium be reached. On the path to equilibrium investment will change and this will have some distributional aspects. These are also dealt with in Schneider's paper, but we shall neglect them here and advance directly to the equilibrium position where the sum *intentionally* saved from wages and profits (i.e. in accordance with the saving propensities of the two income groups[28]) equals intended investment ($= I_o$). This position is contained in the following formula

$$s_p P + s_w W = I_o, \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad (15)$$

which is again equivalent to formula (5) which we encountered in Kaldor's and Boulding's system.

There is, however, a significant difference between Kaldor and Schneider with regard to the use to which this formula is put. In Kaldor's model not only I_o but also Y ($= P+W$) is taken as given (the latter at full employment level). With given departmental saving propensities this yields a unique distribution, since there is only one division between W and P that will make total savings equal to I_o. Schneider, however, does not tie his saving-investment equality to a given income level. Different combinations of profits and wages (each combination yielding a different level of total income) will secure savings equal in size to the given investment volume (I_o).

This case is best illustrated with the help of a simple diagram. In Figure 2 profits are depicted on the abscissa and wages on the

[27] Unintended savings and investment arise mainly among entrepreneurs. Unintended investment in the form of changing stocks, unintended savings as part of an uncertain residual which is left over after consumption has been geared to the *expected* income level. Since gaps between unintended and intended quantities are mainly seen in the entrepreneurial sector, it is from this sector that the adjustment process in times of disequilibrium will start.

[28] Schneider—like Kaldor—works on the assumption of stable saving propensities, with marginal and average values being equal.

ordinate. If *only* profits were earned, total income would have to be equal to OB, where OB is given by the equation $s_p \cdot OB = I_o$. Similarly total income would have to be equal to OA, if only wages were earned, OA being given by $s_w \cdot OA = I_o$. OA has to be greater than OB because we have assumed that the non-entrepreneurial savings propensity is smaller than the entrepreneurial propensity ($s_w < s_p$). To reach a given level of savings ($= I_o$), a higher income is, therefore, required if it consists of wages than if it consists of

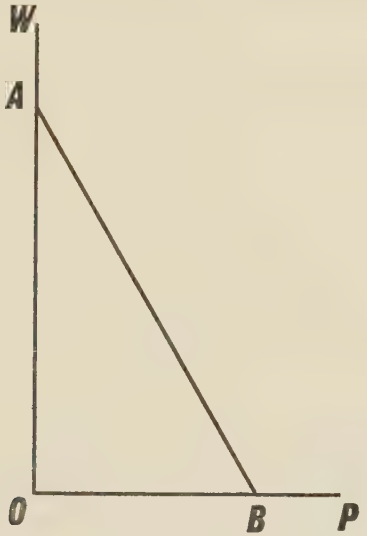

FIG. 2

profits. If we now connect the points A and B by a straight line, then each point on this line represents a combination of wages and profits out of which an amount of I_o will be saved.[29] This line is an 'iso-savings' line, but not an 'iso-income' line. On the contrary: each of the 'possible' points represents a different total income ($Y = P+W$) whose size lies between the values OA and OB.

By letting income fluctuate Schneider, therefore, does not obtain a determinate solution for income distribution, even when the investment level is (exogenously) given. To make the system determinate he introduces a further (behavioural) relationship. He says that *at a given wage level* the employment and wage bill created by entrepreneurs will depend on the intended (or expected) profits. If we denote the intended entrepreneurs' income by P*, then we can write

$$W = \phi(P^*) \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad (16)$$

[29] The combinations lie on a straight line because we have assumed constant saving coefficients.

When we combine this relationship with equation (15) we get a determinate solution for W, P and Y (given I_o, s_p and s_w). If the form of the functional relationship expressed in equation (16) is known, this solution can be worked out. As a special simplified relationship Schneider introduces the assumption that the wage bill created by employers is *proportional* to expected profits. If we further concentrate our attention on the equilibrium position where actual profits are equal to expected profits ($P = P^*$), we can re-write equation (16) in the following form

$$W = \alpha P, \quad \ldots\ldots\ldots \quad (16a)$$

α being a constant. Together with equation (15) this gives us

$$\begin{aligned} I_o &= s_p P + s_w W && \text{(equation 15)} \\ &= s_p P + s_w \alpha P && \text{(substituting for W from equation 16a)} \\ &= (s_p + s_w \alpha) P \end{aligned}$$

or

$$P = \frac{1}{s_p + s_w \alpha} . I_o \quad \ldots\ldots\ldots \quad (17)$$

W is obtained from (16a)

$$W = \frac{\alpha}{s_p + s_w \alpha} . I_o \quad \ldots\ldots\ldots \quad (18)$$

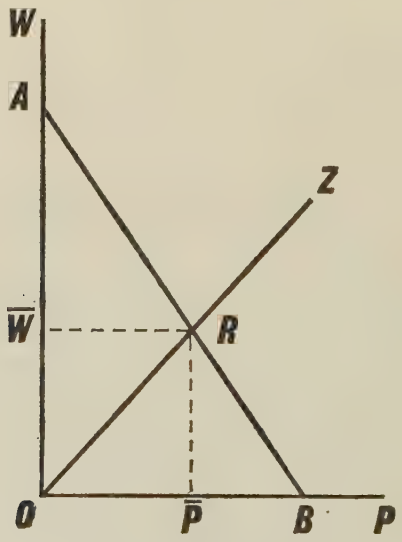

FIG. 3

This solution can be easily illustrated in diagrammatical terms. In Figure 3 the axes and the line AB have the same meaning as in

Figure 2. The line OZ represents the functional relationship between excepted profits (measured on the abscissa) and wages paid out by employers (measured on the ordinate). In the diagram the simplified assumption of proportionality is depicted. With given saving propensities and a given investment volume the equilibrium solution is given by the intersection of AB and OZ at R. At this point expected and actual profits ($\overline{OP}$) will coincide and the wages paid out ($\overline{OW}$) will therefore appear 'justified.' Savings out of $\overline{OP}$ and $\overline{OW}$ will be equal to the desired level of investment (I_0). Total income will be equal to $\overline{OP}+\overline{OW}$—not necessarily a full employment income.

We can now see that the Kaldor and Schneider models, though starting from similar assumptions, work in rather different ways. What they have in common is the introduction of (more or less constant) separate saving propensities in the profit and wage sectors. Kaldor then works at a given total income level (full employment income) so that the *sum* of profits and wages is exogenously determined (size of population, capital stock, production function). Investment or changes in investment will determine the *relative* shares of profits and wages in total income. More investment, for instance, requires a higher savings ratio out of total income, and this comes about by a shift from wages to profits.

Schneider, on the other hand, does not take total income as given. With the given saving propensities of capitalists and workers, total income (both wages *and* profits) will rise or fall with increases or decreases in investment. This mechanism of rising and falling incomes ensures the adjustment of savings to investment. The *relative* distribution between the two income types is given by a behaviour-technical relationship. Distributional equilibrium is reached when the wages employers are willing to pay with respect to an expected income, lead to that expected income. As can be seen from equation (16a), in the case of a proportional relationship, where

$$W = \alpha P$$

or

$$\frac{W}{P} = \alpha ,$$

the relative distribution (*in times of equlibrium*) will be constant, quite irrespective of the volume of investment.

At the danger of tiring the reader, I want to illustrate the difference between the two models with the aid of a simple numerical example. Using the same symbols as before, let us assume that

$$s_p = 0{\cdot}2, \quad s_w = 0{\cdot}1$$

We want to compare two periods: in period 1 investment (I_1) equals 100, in period 2 (I_2) it rises to 110. In both periods savings must equal investment.

Let us start with the Kaldor model. Here we must make a further assumption about the size of total income. Let us set it at 750. In period 1 we have, therefore, the following relationship

$$S = s_p P + s_w (Y - P) = I_1$$

or

$$0.2\,P + 0.1\,(750 - P) = 100$$

Solving for P this gives

$$P = 250$$

and consequently

$$W = 500$$

The share of profits in total income is

$$\frac{P}{Y} = \frac{250}{750} = \frac{1}{3}$$

In a similar way we obtain for period 2

$$S = 0.2\,P + 0.1\,(750 - P) = I_2 = 110$$
$$P = 350\,; \quad W = 400$$

The share of profits has risen to

$$\frac{P}{Y} = \frac{350}{750} = 0.47$$

And now to Schneider. Here we make no assumption about total income, but assume that in the relationship

$$W = \alpha P$$

$\alpha = 2$ (in equilibrium).

From equations (17) and (18) we know that for the savings-investment equality we require

$$P = \frac{1}{s_p + s_w \alpha} \cdot I_1 \text{ and } W = \frac{\alpha}{s_p + s_w \alpha} \cdot I_1.$$

Substituting our numerical values in these equations we obtain

$$P = 250, \quad W = 500.$$

Total income (Y_1) = 750, and the share of profits

$$\frac{P}{Y} = \frac{250}{750} = \frac{1}{3}$$

When investment rises to 110, substitution in the profit and wage equations yields the following values

$$P = 275, \quad W = 550.$$

Income has risen to 825, but the share of profits ($\frac{275}{825}$) is $\frac{1}{3}$ as before.[30]

In a way, one could say that Schneider's model is more 'Keynesian' than Kaldor's, because it leaves room for those fluctuations in income with investment which have been such an outstanding characteristic in the Keynesian debate.[31] But however one views this aspect of Schneider's theory, in its present form it, too, does not extend far beyond a purely formal statement. The assumed constancy and independence of the two saving propensities it shares with Kaldor's theory; and the crucial relationship between profit expectations and wage payments remains rather unexplained. What we are told, in fact, is that the more employment and wages entrepreneurs are prepared to offer in relation to expected (and in equilibrium realised) profits the higher will be the share of wages in income. To make this rather obvious statement more useful, one would have to find out more about the actual determinants of business policy with regard to wages and employment. This would soon lead to the appearance of some of the categories we have met before, like 'normal' profits, market structure, trade unions, banking policy.

VIII

Of the several models that show some resemblance to the 'Kaldor' approach[32] I want to present one more as an example of a rather different 'split-up' of the macro-economic aggregates. In an essay on the determinants of income distribution in the modern economy[33]

[30] The difference between the two models could also be shown by letting the saving propensities vary, investment remaining unchanged. Here again, Kaldor's case would lead to a change in the equilibrium distribution, Schneider's model to a change in total income.

[31] Or at least we should say that Schneider's model has a more familiar ring in connection with Keynes' 'General Theory'. The 'Keynesianism' of Kaldor's model is partly related to the 'Treatise on Money' and the 'widow's cruse' theory of distribution indicated there.

[32] Their number is rapidly growing. Here is a random selection of some recent contributions: Joan Robinson, *The Accumulation of Capital* (London, 1956); Sidney Weintraub, *An Approach to the Theory of Income Distribution* (Philadelphia, 1958); Alfred Stobbe, 'Kurzfristige und langfristige Bestimmungsgründe der Einkommensverteilung', *Schweizerische Zeitschrift für Volkswirtschaft und Statistik*, 96. Jhg., No. 2 (1960); G. Bombach, 'Preisstabilität, wirtschaftliches Wachstum und Einkommensverteilung', *Schweizerische Zeitschrift für Volkswirtschaft und Statistik* (March 1959); R. Findlay, 'Economic Growth and the Distribution Shares', *The Review of Economic Studies* (June 1960).

[33] W. Krelle, 'Bestimmungsgründe der Einkommensverteilung in der modernen Wirtschaft' contained in *Einkommensbildung und Einkommensverteilung* (Schriften des Vereins für Socialpolitik, Gesellschaft für Wirtschafts- und Sozialwissenschaften, Bd. 13) edited by W. G. Hoffmann (Berlin, 1957).

Wilhelm Krelle takes as his starting point the division of total income into income from property and income from work. This is not the same as profits and wages, as he splits the income of entrepreneurs into a property part and a reward for the labour they perform. This distinction is not only introduced at the conceptual level but also maintained—with the aid of some estimates—in the statistical investigation that accompanies his theoretical considerations.

Krelle wants to explain the forces determining the relative shares of property and labour income. This explanation is hooked on to the following simple identity

$$\frac{P'}{Y} \equiv \frac{P'}{K} \cdot \frac{K}{Y} \quad \ldots\ldots\ldots (19)$$

Where P′ stands for income from property and K for capital.

The two components on the right-hand side of (19) are readily recognised as the real rate of interest and the capital-output ratio. By concentrating attention on these two factors Krelle wants to shed light on the movements of income shares. As far as the trade cycle is concerned we have an increase of the capital-output ratio in times of depression (because of unused capacity) accompanied by a fall in the real return to capital (and vice versa for the boom). These divergent movements tend to stabilise income shares during the cycle.

For the long run Krelle stipulates a gradual decline of the capital-output ratio as a consequence of technical progress. It is not quite clear how far Krelle here just projects tendencies of the first half of this century into the future, or how far there is a more solid foundation for such a forecast. In any case, as far as the capital-output ratio is concerned he would expect a long-run tendency towards a lower property share. But the final outcome also depends on the behaviour of the real rate of interest. Krelle does not believe in a uniquely determined interest rate (given the relative quantities of labour and capital). Rather he offers a number of factors which will influence its level. Attention is focused on four such factors: the relative strength of trade unions and employers' federations, banking policy, market structure, and the 'Prinzip des rekurrenten Anschlusses' ('Principle of Recurring Links') which refers to the influence of the historically grown income shares. Like Kaldor, Krelle adds absolute lower limits for property and labour incomes that must be observed if the system is to function at all.

Krelle's theory displays the same 'open' character which we observed in Kalecki's case. A formal identity is established and taken as the basis for throwing out suggestive hints about some of the forces

moulding the income structure without, however, providing a complete or definite picture of the probable future course of these forces and their effect on income shares.

IX

All the theories mentioned so far have one thing in common. They start from a simple analytical framework (a few identities and behaviour equations) and then try to clothe these structures by 'going behind' the chosen strategic coefficients and ratios. This usually brings them into contact with sociological and institutional factors whose influence, however, is usually only lightly sketched. Even when explicitly named they remain normally somewhat in the shadow.

In contrast to this stands the new 'French school' which quite determinedly puts sociological and institutional considerations right into the centre of its search for a new macro-economic distribution theory. Although several French writers take part in this theoretical development,[34] the driving force and the main representative is without doubt Jean Marchal. Marchal has laid down his main ideas in several articles,[35] but the magnum opus in which it will get its final touches is still under way.[36]

The 'French' approach takes its initial inspiration not from the Keynesian model but from the sociological and institutional changes that have taken place since the nineteenth century. Several factors have contributed to change the distribution process from a micro-economic event into a nation-wide bargaining affair. Technical change has resulted in bigger-sized firms and this has led to greater labour solidarity and closer employer relationships. Greater mobility and closer contacts have increased the scope for co-ordinated action. Further, incomes are no longer regarded purely as a 'price', but also as a 'proper' payment signifying one's status in society; also, their

[34] Some of the literature is surveyed in G. Hosmalin, 'Der soziologische Ansatz und die ökonomische Theorie der Einkommensverteilung in Frankreich', *Jahrbücher für Nationalökonomie und Statistik*, Vol. 172, Nr. 4 (July 1960).

[35] See, for instance, J. Marchal, 'Contribution à la construction d'une theorie de la distribution du revenue', *Economia Internazionale* (1954); 'Wage Theory and Social Groups' in *The Theory of Wage Determination*, edited by J. Dunlop (London, 1957).

[36] The work in question is a many-volume affair: J. Marchal and J. Lecaillon, *La Repartition du revenu national* (Paris, 1958 ff.). Three volumes have appeared so far: I. Wage-earners and Salaried Employees, II. Entrepreneurs, Farmers, Rentiers and Recipients of Transfer Incomes; III. The Classical and the Marxist Model. A later volume or volumes will deal with the neo-classical, the modern macro-economic and Keynesian models and the authors' own theory.

function in the maintenance of an adequate total purchasing power is taken into account.

All these factors make for a 'national' policy. In this nation-wide bargaining process several groups can be distinguished which are differentiated by type of income and by their behaviour in the struggle for income and income shares. A macro-economic distribution theory should study the (interdependent) division of total income between these selected groups. Marchal, therefore, does not stop at the two-way split-up we met in the previously discussed theories. Nor does he restrict himself to the classical trinity of rent, profits and wages. Where socio-economic observations demand new sub-divisions, they are introduced; a distinction is made, for instance, between industrial and agricultural profits.

The study of the distribution of national income has to concern itself with the behaviour of these more or less homogeneous groups. They will try to maintain their absolute and relative standards, both by economic *and* political action. This means that market structures and institutional data can no longer be taken as given (which they were in the days of purely individualistic action) but must be seen as variables which can be changed in the course of the group struggle for higher income shares.

A very important rallying point for group action are standards acquired in the past. When they are threatened a state of social tension arises. This can set up various economic and social processes: inflation, changes in output, migration between groups, etc. Gradually adjustment is achieved either because the group manages to reconquer its former standard, or because the idea about what represents a 'proper' standard is revised after some members have left the group and the rest has accepted the deterioration.

It will be clear that this theory is not necessarily contradictory to the models we described in earlier sections. It is true, the various propensities and coefficients we met there do not appear explicitly in the basic structure of Marchal's theory. But with a clearer outline of the economic and sociological rules for group behaviour we could follow up their consequences and this could probably be translated into degrees of monopoly, saving propensities, real rates of interest and the like. This would provide a link between the various types of theories and show up their points of contact and their differences.

X

I hope to have given a general outline of some of the macro-economic distribution theories that have cropped up so rapidly in the

past decade. The main task of this essay was to inform. Though a few critical remarks were added here and there no full critical evaluation was attempted. If I now conclude by adding some general observations, these, too, should be regarded more in the nature of suggestions than as a final verdict.

What is obvious is that there is a definite demand for a macro-economic distribution theory. The almost complete neglect of macro-economic aggregates and inter-relationships in the neo-classical marginal productivity theory is felt as a serious shortcoming. By turning attention to group incomes and to income shares a link to the classical and Marxist tradition is established. This link may be conscious or unconscious. Boulding, for instance, regards himself as heir to Mill's wage-fund theory. With others the points of contact with their ancestors may have to be discovered by the student of economic doctrines.

In contrast to classical theory, however, there is to-day no 'recognised' classification of main income groups. On the whole there is a preference for two groups. But this seems to stem more from a wish to obtain a simple theoretical structure than from any deep conviction that this is the 'proper' division. Exceptions are perhaps Kalecki, whose distinction between wages of manual labour on the one hand and gross profits on the other may have been deliberately chosen in line with Marx's theory of value and surplus value; and Boulding, who explicitly stated that in his opinion the division of non-labour income into profits, interest and rent does not present 'many serious theoretical problems'.[37] A special case is the 'French' theory which introduces as many income groups as the special period 'requires' and in fact uses a larger number of income groups for the present age than did the classical and neo-classical schools in their days.

While the demand for a macro-economic approach to distribution problems is obvious, the lack of a sure foundation for the new theories is similarly evident. What we experience now is the groping for relevant and theoretically fruitful sub-divisions of total income and other macro-economic aggregates. A 'splitting-up' activity is in process which reminds one of the work of atomic scientists. (Distribution theorists are, however, of less immediate danger for mankind.) The consequence is that the number of models is rapidly increasing. Soon we may have the same situation as in trade cycle theory, viz. that we suffer from an embaressement de richesse rather than from a shortage of formal models.

[37] *A Reconstruction of Economics*, p. 246.

What is at present most needed is a stronger empirical and theoretical underpinning for the behaviour of the chosen aggregates. In this process the traditional economic categories will obviously have to be supplemented by sociological and institutional factors. In the 'Keynesian' theories these factors are often disguised behind the economic variables of the model and are usually only introduced in a vague and uncertain manner. The French, on the other hand, have clearly made the plunge into sociology, but have not yet managed to give their theory sufficient shape and formal strength.

The consolidation of the theoretical development would be much easier if the empirical evidence were not so weak and inconclusive. Here we have to deal with long-term developments in a field where reliable statistics have only been recently (and intermittently) available[38] and where even now the statistical and theoretical categories are hopelessly at variance. Under these circumstances it is not surprising that so far empirical tests have not been able to give much help in judging the explanatory efficiency of the various models. Using American figures and comparing the periods 1900-1909 and 1949-1957, I. B. Kravis[39] shows that taking Kaldor's assumptions[40] he obtains very unlikely saving propensities (0·6 for profit earners, slightly negative ones for wage earners!).[41] But apart from the considerable role played by error margins for the earlier data, this calculation suffers from the fact that the profit and investment shares moved irregularly between 1900 and 1957, which makes the choice of periods rather crucial. Melvin W. Reder[42]—also using American data but in a different arrangement—thinks that the variations in labour's share in the period 1909-1956 could be adequately explained with the help of Kaldor's theory. He himself prefers, however, a marginal productivity approach coupled with a Cobb-Douglas type of production function. Kravis, too, offers an explanation of income shares in 'pre-Keynesian' (mainly Hicksian) terms, resting his analysis on supply conditions of labour and capital, elasticity of substitution, and nature of technical progress. But both of them are aware of the incompleteness and crudity of the factual material. 'The data are not such,' writes Reder,[43] 'as to guarantee that the results bear the

[38] As far as profits are concerned this is still too optimistic a statement.

[39] I. B. Kravis. 'Relative Income Shares in Fact and Theory', *American Economic Review* (December, 1959).

[40] Investment playing the *active* part in changing income shares, constant saving propensities of wage- and profit-earners.

[41] Kravis, op. cit., p. 939, footnote.

[42] M. W. Reder. 'Alternative Theories of Labor's Share' in *The Allocation of Resources. Essays in Honor of Bernard Francis Haley* (Stanford, 1959).

[43] Op. cit., p. 200.

interpretation placed upon them.' And Kravis[44] refers ' to the possibly important pieces of the share puzzle that lie within realms of the social mechanism other than the purely economic.'

Thus it seems that the renewed interest in distribution theory has still a wide field of action in front of it. There will probably be more experimentation in the model sphere and it may turn out that a higher degree of disaggregation and a more dynamic approach to ' propensities ', coefficients and structures is required. On the empirical side much remains to be done to improve the quality of the data and to achieve a higher correspondence between theoretical concepts and statistical categories. Finally, there will be no room for artificial barriers keeping out the sociological, political, and institutional factors and their influence on the distribution process.

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[44] Op. cit., p. 947.

JOHN MILLAR

A Bridge between Adam Smith and Nineteenth Century Social Thinkers?

It has been the misfortune of many prophetic thinkers that the times which followed them were allergic to their work. In this way, original ideas can be temporarily submerged; and though future ages will certainly revive them, if they are valid, the personal credit for their earlier discovery is usually forgotten. Such a one was John Millar, Professor of Law in Glasgow University from 1761 to 1801. In his earlier work—*The Origin of the Distinction of Ranks* (1771, 150 pp.) —basing on his legal knowledge, he produced a first draft of nineteenth century sociology, in which he developed such ideas as mother and father right, class formation, power as based on property, defining and annotating them scientifically. In his much more massive work— *An Historical View of English Government* (1787, republished 1803 in four volumes)—he stakes a strong claim to have given us the first specifically *constitutional* history of England, interweaving with this theme the philosophical social overtones characteristic of the eighteenth century. Thus the growing definition of social institutions shines through the careers of princes and Westminster statutes, and it is the former that remains in our memory as the deposit reflecting social opinion.

His work did have direct effect on nineteenth century thinking, especially on John Stuart Mill's sociology. But recognition of his more indirect influence and of his personal achievement has had to wait on a suitable edition representing his writings, which in their old form have been little read in the present century. Such an edition is at last available through the exceptionally thorough work of Dr. Lehmann:[1] Millar at last gets the care he deserved. Dr. Lehmann has read everything that should be read (even the contemporary press); and his introduction admirably prepares the reader on all sides— biographical, historical, political, local and interpretative—for the study of Millar's texts. It is especially fortunate that a distinguished American sociologist has completed this laborious task. For Dr. Lehmann has the width of knowledge and the sympathy to appreciate that Millar's special value is as a legal philosophical sociologist.

[1] *John Millar of Glasgow (1735-1801)*, by William C. Lehmann. Cambridge University Press, 1960. xvi + 430 pp. Price 60/-.

Thus we now have a complete text of the *Ranks* and considerable extracts from the *Historical View* illustrating, for instance, Millar's theory of historical causation, by reflections on such as the significance of *Magna Carta,* or of religious opinion in the Cromwellian period, or the social emancipation of classes under the Tudors and Stewarts. So excellent is the editing that no more need be said than 'read the work'. But the *Historical View* is a very long work; and it is Millar at his most mature. Its full importance can be realised only if it is seen as a whole, and then in its due place in the long role of social and political thought over the eighteenth and nineteenth centuries. The sequel offers some suggestions on this theme.

The main suggestion is that on this long view Millar is a bridge between eighteenth and nineteenth century social thinking. Explicit recognition of this was in fact lost; first because his relatively radical views made him unpalatable in the reactionary period after his death —Millar's thought went underground; and secondly because the Utilitarian school which so dominated thought over most of the nineteenth century, while it absorbed Millar's practical methods of social analysis (*via* the Mills), yet had no sympathy with the more subtle side of his social philosophy, which he took from Adam Smith, as to the vanity, indeed usually the incompatibility of human wishes, and as to the grave doubts shadowing progress. Dr. Lehmann properly adds two broader, more positive reasons—the rise of Romanticism, and that of nationalism, to both of which Millar's work was antipathetic.

Somewhat more exactly, Millar appeals fairly regularly and specifically to utility. He no doubt agreed that 'Man's chief end is to glorify God'. But in his exposition, the Invisible Hand shrinks to practical precepts; steady reform is a sufficient rule. Smith's rule of reason or sense of the fitting becomes the demonstration of historic abuses and their cure. Thus it is easy to read him in the Utilitarian mood as accepting utility as a pragmatic measure (though even the mediate end is for him not Bentham's pleasure but the hope of broadening liberty, with its social consequences). And again, Millar is deeply imbued with Smith's (and Hume's) feeling for society as itself in some sense a living entity in its own right, as well as the blood-stream in which human groups and families subsist. For Millar it is no mere aggregate of individuals.

Thus we should expect his view of society to be more organic and evolutionary than in Utilitarian theory. His view of progress as growing with wealth and knowledge and freedom is in the evolutionary

mood of Herbert Spencer or Leslie Stephen; or again, on the more institutional side, of MacLennan or Westermarck. Also his keen historical interest (always inspired by his social theory, in the eighteenth century way) combined with his thorough legal training, gives his analysis of institutions a sharp edge, an earthy veracity, which we find continued in the work of Sir Henry Maine, and even of Maitland and Vinogradoff.[2] Yet again, we need not be surprised to find analogies with especially the sociology of Karl Marx. For Smith is a common source. Here once more we touch a vital nerve of modern thought.

In amplification, first some suggestions as to how Millar transmitted, yet limited the thought of Adam Smith.[3] It is fair, I think, to say that Millar accepted, indeed assumed Smith's general background of Stoic rationalism, and especially his doubts, almost disbelief in the capacity of mere men and women to achieve rational growth directly; this linking with the economic determinism common to both. We arrive at improvements which are 'no part of our intention'. But in place of the Invisible Hand, Millar's trust is more explicitly in the slowly unfolding roll of history, a faith he worked out in *The Historical View* in a way Smith did not reach.[4] In economic doctrine Millar follows Smith very closely,[5] as he does in his general zeal for progress in liberty and greater refinement in 'manners', and in his condemnation of social evils as springing mainly from tyrannies and abuses of power. Again, he agrees with Smith's comprehensive approach. Though he does not philosophise (or theologise), his history is philosophic (or directed by a theory of possible progress), as is that of all the Scottish, and of course the French, social thinkers of the eighteenth century enlightenment.[6] He constantly traces the broadening stream

[2] To give one among many examples, Millar's exact legal knowledge appears in his treatment of allodial tenure and its development into feudal tenure through a halfway stage like the Scottish clan system. This comprehension strengthens the argument throughout the first volume of *The Historical View* on the Anglo-Saxon period (e.g. *H.V.*, I, p. 301). The main addition in the nineteenth century is the much more thorough reference to sources, but then many more sources had been gathered. Millar had the same method, but because of the lack of evidence he sometimes had to jump gaps—hence Dugald Stewart's 'conjectural history'.

[3] Cf. Lehmann, pp. 102-8.

[4] Though he planned it (see note 7).

[5] The one point on which he went further than Smith was a productivity theory of profits, through substitution of more efficient capital methods for labour (*Historical View*, IV, p. 122), which is usually ascribed to Lauderdale. But Lauderdale was more specific than Millar, and as he was Millar's pupil and friend, the origin of the doctrine is doubtful. See Lehmann, p. 128, and especially R. L. Meek in *Democracy and the Labour Movement* (ed. J. Saville), p. 95.

[6] J. B. Black, *The Art of History*, illustrates this fully.

of social liberty and richer individual expression through a freer society. This said, however, we must realise it is not in his philosophic attitude, but in the different emphasis from Smith that he gave to method and immediate interests, that he links up with the Utilitarians. Especially, he is pragmatic, and concentrates more on immediate reforms through the scientific diagnosis of history. Smith's *system* is accepted, but the spot-light concentrates on practical aims, on the abuses which his 'historical view' reveals as ripe for reform. For him the aim and final achievement would be to influence the policy of his country. Of course, Smith in fact also did this, few more directly. It is unnecessary here to enlarge on the power of Smith's inductive thinking with its patient sifting of evidence. But when one gets down to ultimates, I certainly would risk the judgment that Smith's major urge (or itch) was not so much to reform as to *understand* (whereas the opposite it true of Millar). If you survey Smith's whole life work, the intellectual covered wagon is ever moving west, even to the late pathetic letter of 1785: from 'Belles Lettres' and natural philosophy through ethics and economics back to 'a sort of Philosophical History of all the different branches of Literature, of Philosophy, Poetry and Eloquence' and 'a sort of Theory and History of Law and Government'.[7] (The latter his pupil Millar went far to achieve.) The truest final image of Adam Smith seems to me to be the intellectual dreamer, the system weaver, his mind ever moving on to further logical consequences.[8] For Smith, through this activity, man's chief end *would* be to glorify God (as Reason). Millar was much less concerned with the 'for ever', more exclusively with the very imperfect present. Smith speculates, Millar diagnoses the disease. This narrowing of the aim to one of steady immediate 'betterment' is just what one would expect the Utilitarians to pick from previous social theory—and this is just what James Mill did. But while in his analytic progress Millar is in tune with James Mill and Bentham, he yet retained the saving salt of his master. He avoided dogmatism in moral theory. He is no trader of quick cures. He sees with Smith

[7] The letter was printed in *The Athenaeum* (Dec. 28, 1895), with a comment by John Rae. Smith added 'The materials of both are in a great measure collected, and some of both is put into tollerable good order. But the indolence of old age, tho' I struggle violently against it, I feel coming fast upon me, and whether I shall ever be able to finish either is extremely uncertain'. So it proved. The 'tollerable good order' was no doubt committed to the final flames.

[8] The evidence for Adam Smith's 'absence of mind' (see John Rae's 'Life', index), is easily misunderstood. Smith's mind was never absent in the sense of empty or day-dreaming. There is convincing evidence that it was constantly concentrated on long trains of reasoning. In this state we all do odd things, in our lesser way.

that the faults lie in ourselves. And his sense of history constantly documents humanity's sin and folly, as well as a faint hope from the nature of the whole system. Millar was incapable of Bentham's brashness and James Mill's self-confidence. Millar could not have provoked Cromwell's injunction to the General Assembly. James Mill would have; Bentham might.

It is well known that James Mill took much from Millar—and passed it on to his long-suffering son, who is said to have preferred the *Historical View* to Hallam.[9] There are indeed obvious resemblances between the *Historical View* and the *History of British India*', especially in the common institutional treatment. But the differences are equally clear. Millar retains Smith's careful inductive study of the evidence—a wise judge. But, as Mr. Duncan Forbes has said, 'It is clear that Mill's method in the *History of British India* was really deductive, as in the *Essay on Government,* in which the "experience test" is purposely rejected'.[10] Millar could never have argued, as James Mill did in his Preface, that direct knowledge of the facts (of India) might be highly misleading for the historian, and is less important than a grasp of the 'laws of society'. In the 'laws of society' (the precepts of utility according to Bentham and James Mill), we pass over to the nineteenth century and 'the plain rule of utility which will always guide you (Ricardo!) right, and in which there is no mystery'.[11] No mystery for James Mill; but for Adam Smith there was always a mystery. And Millar retains some sense of mystery as well as his saving scepticism.[12]

Yet he is content to work along with the rules of 'utility'. He uses the word often, especially in volume IV of the *Historical View,*

[9] The evidence for Millar's influence on the Mills is summarised by Dr. Lehmann (p. 152). James Mill's tributes to Millar in the *History of British India* are frequent and emphatic.

[10] *James Mill and India,* in *Cambridge Journal.* 1951.

The deductive control over James Mill's thinking is I think specially obvious in his treatment of the Hindus in the early volumes of his 'History'. Only one arguing from a narrowly rationalistic principle (such as utility-pleasure) could describe them as 'rude people' or speak of 'the rude legislators of Hindustan'. He richly deserves the constant factual corrections of his editor, H. H. Wilson. Millar would certainly have appreciated their legal subtlety in practice, as well as the contemplative piety in Hindu religion. Like a sound lawyer, he would have followed all the evidence.

[11] Letter of James Mill to Ricardo 23/9/1818, Vol. VII of 'Works' of Ricardo (ed. Sraffa). Mill sent Ricardo a copy of Millar's *Historical View,* which Ricardo read.

[12] See Lehmann, p. 80, also the passages from Millar at pp. 311, 372. These references to 'the Element of Mystery in life' are, however, isolated. In my view, the conclusion given in the second paragraph from this one describes Millar's true theoretical bent.

which we must take as his mature political statement.[13] But he is equally clear (as the Utilitarians were not) that utility is not enough. He did not hope for any smooth perfection through education in Utilitarian principles. About the future he can be as doubtful, at times gloomy, as his teacher. At most he shares his willingness to accept progress as a signpost moving in the right direction, though the most we can hope is that we may stumble along the right road towards the right results. Millar had not 'the clear hard mind of Bentham', in Lord Acton's phrase (though I think James Mill's mind was at once clearer and harder). I have no wish to belittle the Utilitarians. They (especially Bentham) were reformers. Their justification is writ large and splendid in the social progress of the nineteenth century. But when we look broadly at what has happened after their day, as well as before, we see how thin and shallow the Utilitarian social ethic is as an interpretation of history, indeed as any more than its actual function, an adequate basis in theory for immediate surgery. With Smith, however, Millar sustains the larger test. Even our dismal history since 1914, while it would have infinitely saddened them, would not have excessively surprised them.[14] This is a climacteric change. For Smith's speculation the Utilitarians put legislation. In place of Millar's comparative institutional analysis we are edged willy-nilly by the Utilitarians towards modern specialisation. For Ricardo, not Smith the philosopher, is the father of modern specialisation in economic theory. And indeed what need is there for more than specialised deductions in relation to any sphere of facts, if the final values and principles are accepted as clearly established?

The analogy with Marx is clear and strong, though Dr. Meek tells us that Marx does not appear to have had any direct contact with

[13] E.g. *H. V.*, IV, pp. 218, 278, 298. At p. 305 he says 'The blind respect and reverence paid to ancient institutions has given place to a desire of examining their uses, of criticising their defects, and of appreciating their true merits. The fashion of scrutinising public measures according to the standard of their utility has now become very universal.' At Vol. IV, p. 201, discussing 'sobriety and temperance', we even have the motives to human action reduced to 'two classes: the desire of obtaining what is pleasant and agreeable, and that of avoiding what is painful and disagreeable.' But his general position (resembling Hume's) is best stated at Vol. IV, p. 234: 'Nature has wisely provided that the education and even the maintenance of human offspring should not depend on general philanthropy or benevolence deduced from abstract philosophical principles; but upon peculiar passions and feelings . . . and when these passions are weakened, these feelings destroyed, we shall in vain expect their place to be supplied by general views of utility to mankind, or particular interpositions of the legislature.' This is *not* the Utilitarian canon.

[14] Cf. 'Scientific Whiggism: Adam Smith and John Millar' by Duncan Forbes in *Cambridge Journal*, August 1954.

Millar's writings.[15] But his study of Smith was close, and there he appreciates the same synoptic vision as did Millar. This rests especially on the estimate of the importance of sociological forces. Both the Scots realised the importance of wants and of the economic incentive to satisfy them, in the societies they knew. Both were in this sense economic determinists in their social thinking. But when we come to their attitudes to progress, the emphasis changes between the two. Smith is as doubtful as any about the capacities of men. But his intricate moral system is throughout based on Stoicism; and when pushed to the limit he appeals to the Invisible Hand. In its specific working the Invisible Hand operates through its instrument, reason, and human social sympathy, however indirectly and mysteriously this shows in the purposes of men. In reading Millar's texts, however, though on the watch, I have found no secure evidence that he ever wishes to use any arguments on the level of theology, or even of moral philosophy. He may begin by stating a broadly obvious religious or moral maxim, but at once he slides away to trace its growth through the institutions, for instance, of love in the conventions of chivalry, or of piety in the hardening rules of monastic orders, or even of 'superior beings' in the 'science of religion'. Similarly, the 'science of ethics or morality' arises from comparing 'the good or bad behaviour of those who live in society' (*H.V.*, Vol. IV, pp. 165-6). In this he surely resembles Marx. Millar is typically the Smith of the *Wealth of Nations* in the inductive mood, never typically the speculative system builder of the *Moral Sentiments*. He shows us how greater fortitude, sobriety and initiative are the necessary *results* of the gradual broadening of liberty and wealth, rather than the *logical relations* of vanity to pride and magnanimity, or the psychological sources of social sympathy as Smith did. Here again he resembles Marx.

In their treatment of progress,[16] however, the two Scots are in tune, and out of it with Marx. Here Millar is perhaps more explicit

[15] 'Scottish Contribution to Marxist Sociology', p. 99, in volume cited in note 5 above.

[16] Progress, or indeed ultimate achievement. This may point the meaning of the distinction which Lehmann draws (op. cit., p. 99) between 'evolutionism, and the idea of progress, which he does not elaborate or illustrate from Millar. Millar was certainly an evolutionist as regards his sociology of the past—the gradual growth of institutions in definable stages. But while we must surely recognise that he saw progress in these successive stages, it may properly be argued that he did not therefore assert the inevitability of progress in the future. His doubts are indeed obvious—at least as obvious as with Smith: see, for instance, his balanced reflections on the relative political functions of the principles of authority and utility (*Historical View*, Vol. IV, pp. 309-10).

than Smith. He sees the possibility of progress as a kind of forward-moving circular logical movement by which, to break into the circle, wealth grows, therefore liberty grows bringing power. These free initiatives cause ever closer intercourse between freer people, and this is the fruit of the whole process, through which in turn are inevitably developed the skills, resources and incentives which once again produce and bring us back to increased wealth. Millar may therefore seem to ascribe as much force to the push of wants and so to the creation of wealth, as to 'improved manners and arts' (the arts here being mainly our techniques). And if so, though it is an anachronism, one is bound to taste the Marxist flavour in his thought. Yet for Millar the push of economic wants is worked out only in relation to a phase of social history. He notes that at earlier periods power sprang from mere physical strength, or later from military cunning.[17] Yet, in the final estimate, I find it difficult to consider the four volumes of the *Historical View* as other than a wide historical panorama of the broadening stream of human liberty; broadening, but with its eddies, even back-waters when tyrannous arbitrary powers prevail.[18] Liberty of the human person is the goal. What liberty we have we must guard and extend. Through liberty we realise what fruit we may enjoy.

It is not an adequate theory: liberty for what jumps out at us logically. But it is a brave platform for politics and reform, well fitted for the practical lawyer and reformer that Millar was. Here he resembles the Benthamites, putting liberty for utility. But again he diverges from them. For where they put their trust in the 'plain rule of utility', Millar's hope is much vaguer, much less confident and dogmatic. In an interesting passage closing the first volume of the *Historical View* (the Anglo-Saxon period) he ascribes the progress in social life and government 'everywhere to a kind of *natural growth*[19] produced by the peculiar situation and circumstances of the society', as against the view that 'it might be natural to suppose that the whole had originated in much contrivance and foresight; and is the result of deep-laid schemes of policy'. So while Smith offers us faith in a remote Invisible Hand evidenced by what workings of deeper reason we can trace, Millar proposes no such logical (or theological) reason why progress should continue, though he does show how and why it has developed in a long stretch of modern history. This gives a modicum of hope; but history shows exceptions to the growth of

[17] See *Ranks* (Lehmann, pp. 246 ff.).

[18] One eddy, at least, that worried Millar was the growing influence of the Crown in his day (see *Historical View*, vol. iv, pp. 79-100). The 'principle of authority' was encroaching, he thought, on those of utility and liberty.

[19] My italics.

liberty, and offers no guarantees (and we may add, the longer back the span the more precarious the hope). This is almost the opposite of the Marxist creed. Here is no necessarily growing economic tyranny, no inevitable revolution, no messianic strain, no classless society with a withered state. To the sceptical eighteenth succeeded the fervent, dogmatic, to us rather credulous nineteenth century.

Millar's special talent was then that of the comparative lawyer turned sociologist and reformer. He was a gradualist, not persuaded by revolutionary or equalitarian theories.[20] In these roles he appears rather as the tactician for Adam Smith's strategy, the man who always wishes to act on available evidence, whereas Smith was also the endless seeker after ultimate explanation. Yet in Millar one is never conscious of that impoverishment with which a superficial moral theory and an inadequate sense of history suffuses Utilitarian *theory*. He thus commends the Utilitarian virtues, yet avoids their inadequacies. He retains the wide theoretical sympathies of the eighteenth century, but adds to them the careful analysis of facts and institutions which are the achievement of the next.

That he and Smith should accept the driving power of economic wants and conditions is historically proper. That they did not regard this as eternally inevitable or final is, however, a different position. And it is one that links them with the crucial issue in *our* day. For the drive of economic wants is to-day seen to be no longer incapable of satiation. (In favoured conditions they are being satiated.) And again, continuous progress is to-day clearly by no means inevitable. The strategic change in our assumptions and conditions is that we ourselves (not 'nature') can, indeed must, create our own wants; and we can create very strange wants (including possible self-destruction instead of progress). For these problems older doctrines seem to have little answer; indeed fairly obviously, alone, economic theory just cannot give the answer. Anyone who believes that economics alone can solve to-day's problems is simply not being his age. This *was* broadly believed in the first two-thirds of the nineteenth century, and we have been set some of our hardest problems of social

[20] Dr. Meek shows this very clearly in the article referred to above at pp. 95, 96: 'What impressed Millar was not so much the subordination of the labourer to the capitalist as the capacity of the labourer to become a little capitalist himself.' Millar of course regarded this as a spreading of liberty. The contrast with Marx is well put by this from Dr. Meek's article: '[Millar] refused to regard the relationship between the labourer and the capitalist as essentially an exploitive one. On the contrary, by adopting the "productivity" theory of profit mentioned above, Millar effectively disguised the exploitative basis of the relationship, moving in this respect a step backward from Smith.' Cf. Lehmann, pp. 67, 68, 162.

degradation just because of this narrow belief. In apportioning scarce means as against obviously satiable needs, economic theory can go a long way, just because the needs are steadily more satiable, and should obviously be satiated (the moral obligation is clear). But the wants *we* create, after the needs have been satiated, depend not on 'nature' but on our own valuations; and these may not be satiable, may not be controlled primarily by economic considerations, and may have vague and shifting moral foundations. (Incidentally, the conditions for stable economic equilibria may break down.) Or again, the free market is most efficient in determining economic priorities in a world of basic scarcity. But to-day the facts run ahead of this. The wide spread of administered prices just reflects our sense that we can now (in favoured conditions) afford to ignore merely economic precepts, as they are organised, as to the basic needs and market priorities. In a world where *we* make economic demands, our choices will exert their force through all kinds of other social-pressure channels. Economic theory has to catch up with this. Some theory of administered prices must grow; and it will need the help of all the social sciences.

These are rather terrifying oceans (though also offering large hopes) into which our generation is sailing; and we are short of reliable charts and compass. If pure theory does not offer much assistance, it may help us to look to a similar period in the past when also a corner into new country was being turned. We may there consider the kind of social theory it found useful. We may do well to take a long view, long enough to define the broad trend of ideas and conditions, and the dynamic forces which are more important than intense specialisations and individual achievements. If so, the period, roughly, 1750 to 1850 is our most obvious recent analogy. What will then strike us is the contrast between the comprehensive social theory and approach of eighteenth century thinkers and the ever intensifying, ever narrowing specialisms of to-day, specialisms which almost defeat the possibility of an inclusive judgment as to where we may be drifting, and why (for we are clearly drifting, and, while there always is drift, to-day it seems more dangerous). If then it is true that Millar's work supplied a link between the first and second halves of this period, its study may suggest just the right comprehensive, tentative, pragmatic approach to the problems of our day. In the scepticism, yet faith, of the eighteenth century we may recover the humility and caution which specialisation does the reverse of fostering, but which we so need, and lack, to-day.

Such reflections suggest the high importance of Millar's work, and therefore the gratitude we owe to Dr. Lehmann for giving us such ample means to appreciate it.

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PROPERTY SPECULATORS AND THE BUILDING OF GLASGOW, 1780 - 1830

I

By the 1780's the increase in population associated with the Clyde's growing overseas trade was beginning to cause a marked intensification of demand for building room in and about the old city of Glasgow. It is well attested by contemporaries that in addition to the general hunger for business accommodation a more specialised demand had arisen amongst the mercantile class for larger and more elegant houses, of the type which could be seen in the planned squares and piazzas of London's newly-built West End. The rise in living standards in Glasgow, though less conspicuous than London's, caused a parallel discontent with the cramped and modest lodgings which had satisfied seventeenth century merchants, and created a desire for more spacious and impressive town-houses.

In the older, central parts of the city the intense subdivision of property—every shop and flat being separately owned—made it difficult to rebuild or adapt houses to satisfy the new standards or cater for the growing numbers of the commercial middle-class.[1] A familiar token of success amongst the Virginia merchants was the setting up of a country-house outside the old town, 'brizing yont', as it was called. When suitable land came onto the market therefore —as it did between 1770 and 1810—unequalled prospects of profitable speculation both in the sale, subdivision and resale of the land itself and from building operations were opened up.[2]

In London the Dukes of Westminster and Bedford, Lord St. Albans, Sir Thomas Bond and other aristocratic owners of urban property had been possessed not merely of sufficient land but also of sufficient capital and credit to exploit this great entrepreneurial opportunity, to their lasting profit. What had been low-priced agricultural land on the outskirts of London was irrigated, not by channels of water but by boldly-cut streets and new buildings; and the replacement of crops by people brought as reward rent-rolls many times greater than any equivalent effort of agricultural improvement.

[1] *Glasgow, Past and Present,* I (Glasgow, 1884), XVII.

[2] Estimates of Glasgow's rental suggest a thirty-fold increase over the period 1712-1815, a seven-fold increase over the period 1773-1815.

1712	£7,840
1773	£36,706
1803	£81,484
1815	£240,000

J. Cleland, *Annals of Glasgow,* I (Glasgow, 1816), 342-3; J. K. McDowall, *The People's History of Glasgow* (Glasgow, 1899), p. 109.

In Glasgow, by contrast, the history of urban expansion during the most rapid period of population growth is coloured both by the absence of a class of wealthy speculative proprietors and the presence of a number of factors not operative in London, which were to leave lasting differences between the development of Britain's first and second cities.

Prominent amongst the factors influencing the shape of building development in Scotland must be accounted the particular conditions of landownership under Scottish Law, and the universality of the tradition of feuing. In the expanding English towns the patterns of land use, with very few exceptions, were governed by freehold purchase or the granting of a lease which could be revised on expiry: in Scotland the most common system was that of feuing the land. The usual procedure was that a purchase price per acre or per square yard would be agreed upon, part of this would be paid over in a lump sum, the rest translated into a feu in perpetuity, a species of nominal rent attached permanently to the parcel of land.[3] According to the terms of the individual feu-contract latitude could be allowed for this feu duty to be extinguishable at a later date upon payment of a lump sum, usually equal to 21 times the annual feu.[4] But more often than not the feu remained as a perpetual instalment, the incidence of which was affected only by gradual inflationary price movements over the years. Because the sum of the feu was specified in the original documents of sale it could not be reviewed again realistically and the feus therefore tended to be stiff in relation to the initial, though not, of course, the potential value of the property. In the view of many contemporaries this initially heavy burden was the reason why the inhabitants were lodged ' in immense piles of masonry, raised tier upon tier ' on each acre.[5] More recent legal opinion has likewise commented upon the impetus towards denser exploitation of urban estates given by this characteristic of Scottish Law.[6]

[3] *Encyclopaedia of Scottish Legal Styles*, V (Edinburgh, 1937), 143-219.

[4] The section on the procedure for purchasing land from the Hospital in *The Constitution, Rules and History of Hutcheson's Hospital* (Glasgow, 1850), p. 84, explains specifically ' The price offered per square yard is always understood as being convertible into an annual feu duty, at the rate of 5% (with duplication every nineteenth year).'

[5] *Glasgow, Past and Present*, I. 148.

[6] The *Report of the Scottish Land Enquiry Committee* (1914), pp. 292-342, 347-56, 376-95. ' Under the feu system . . . the superior's natural endeavour is to fix his original conditions of feuing so as to get as large a return as possible, once and for all. It is very probable also that the preponderance of tenements of three and four storeys in height in Scotland as compared with England is attributable in part at least to these high ground rents.' Ibid., p. 293.

This was one of the long-term and impersonal tendencies moulding the particular form of tenement-estate development taken by the new Glasgow emerging at the turn of the eighteenth century. The other main factor emerges from a closer examination of the history of the land market in Glasgow.

In 1770 the key to Glasgow's territorial expansion was held by Hutcheson's Hospital. It owned, conjointly with the Corporation and Trades House, all immediate land to the south of the river; it also held the lands of Ramshorn and Meadowflats, immediately to the west of the old town, separating Glasgow from the extensive agricultural lands of the Campbells of Blythswood.[7] The land directly owned by Hutcheson's Hospital came to well over 150 acres, an area greater than the built-up area of the whole town depicted in McArthur's map of 1778.[8]

The possession of such substantial estates contiguous to the growing commercial city was no accident, but the product of deliberate policy. By the terms of his charitable bequest Thomas Hutcheson had directed the Patrons to 'invest the mortified sum in arable land in the neighbourhood of this trading and well-circumstanced city'.[9] This policy was followed, as well as the charitable commitments of the Hospital allowed, until 1772. The impatience and desire to sell which an individual might feel when he witnessed, during his life-

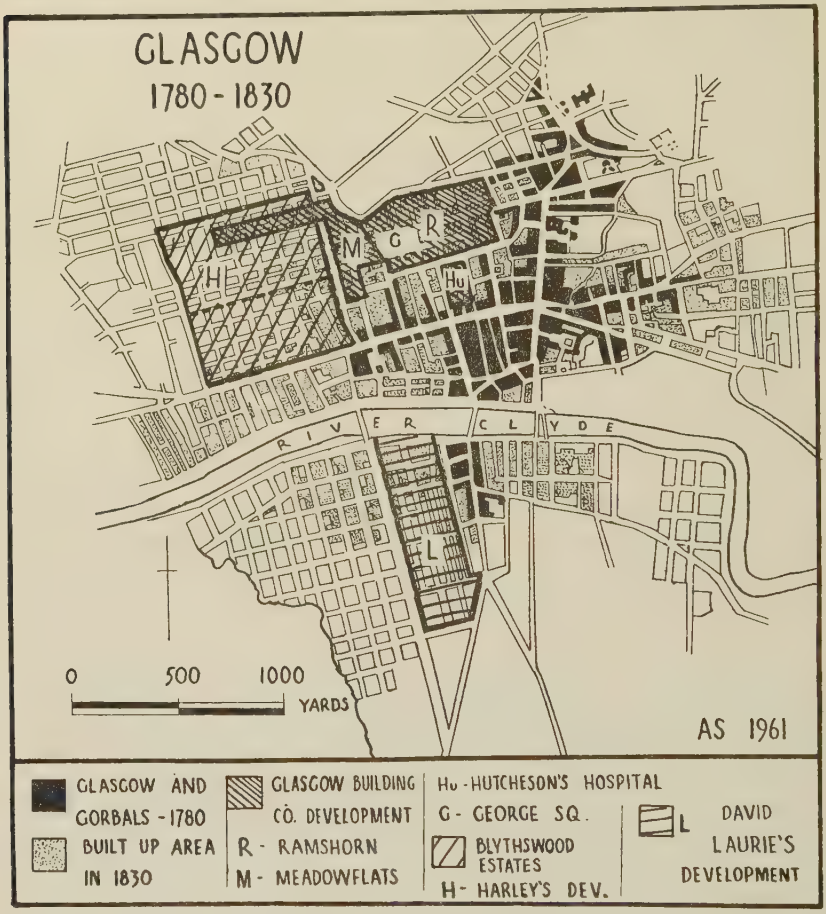
[7] I should like to express my indebtedness to Mr. A. Slaven of the Economic History Department for preparation of the accompanying map. The Meadowflats and Ramshorn lands had originally belonged to Thomas and George Hutcheson, were purchased by the Town Council, 1694, and transferred by them to the Hospital in 1695. Their exact topographical extent is shown in the Feuing Maps, II, 26, 27, Royal Faculty of Procurators' Library, Glasgow. R. Renwick, *Extracts from the Records of the Burgh of Glasgow*, VIII (Glasgow, 1913), end-papers, shows what is evidently a redrawing from William Kyle's original maps by McDonald, City Engineer, in 1913. W. H. Hill, *History of the Hospital and School* (Glasgow, 1881), opp. p. 88 gives a clear map of these lands superimposed on the present-day street plan.

The lands south of the river, in the barony of Gorbals, were jointly owned by the Corporation, Trades House and Hutcheson's Hospital until 1795, when they were formally divided; half went to Hutcheson's, a quarter each to the Town Council and Trades House. The exact topographical extent of the Hospital's portion is shown clearly on a coloured map in *Constitution, Rules and History*, opp. p. 4. The minerals below the surface remained the common possession of these three parties. See G. Eyre-Todd, *History of Glasgow*, II (Glasgow, 1931), 295, III (1934), 38, 352. The earlier history of these lands is recounted in W. H. Hill, op. cit., pp. 99-134, and in J. Ord, *The Barony of Gorbals* (Paisley, 1919), pp. 17-60.

[8] John McArthur, *Plan of the City of Glasgow* (Glasgow, 1778). The division of the lands immediately surrounding Glasgow into crofts and plots can perhaps be seen more easily in James Barry, *Plan of the City of Glasgow* (Glasgow, 1782).

[9] Report of the Committee on Lands, February 1802, in *Constitution, Rules and History*, p. 150.

time, the rise in site values was more easily curbed in a corporate body.[10] The benefits for a corporation were just as great as for an individual, but the only ways in which Hutchesons could realise the



enhanced value of their lands were by selling them or by terminating the agricultural leases and carrying out a programme of building themselves. This they were neither equipped nor empowered to do, and so between 1772 and 1802 the large Hutcheson estates were broken up.

[10] The value of the Hospital's property in the Gorbals increased eight-fold between 1740 and 1820, and a further twelve-fold in the next sixty years.

1660	£3,388	1821	£30,592
1740	£3,563	1841	£115,830
1785	£9,447	1861	£190,369
1801	£21,785	1881	£366,107

See W. H. Hill, op. cit., p. 131.

The effect upon Glasgow's growth was immediate and spectacular, and is only paralleled historically by the break-up of the large corporate estates of 23 religious houses and their immediate absorption by Reformation London; the sixteenth century 'transformation of London' as Miss Jeffries Davis termed it.[11] The Ramshorn and Meadowflats Lands, which constitute the heart of the modern city, were re-conveyed by the Patrons of the Hospital to the Glasgow Magistrates, and were immediately advertised and sold by them, 'the public demand for building purposes being no longer restrainable.'[12]

This important sale of the march between the City and the Blythswood lands in 1772 was only the beginning. Hutcheson's Committee on Lands continued its activity in the 1780's, reporting on the rising value of other grounds and presenting memorials on the expediency of letting parts of the Hospital's central property for use as shops and warehouses.[13] Finally the very grounds of the Hospital itself were disposed to Robert Smith jnr. and the Glasgow Building Company; the policy of out-relief by pension replaced that of residential charity, the modern Hutcheson Street was cut through the gardens of the old hospital and what was left of the building transferred in 1805 to Ingram Street, another newly-cut thoroughfare.[14]

In the 1790's the break-up continued with the extensive feuing of the Gorbals lands. In 1792 the 27 acres of Wellcroft and Stirlingfold went to James Dunlop and Andrew Houston;[15] in 1802 Tradescroft

[11] Miss E. Jeffries Davis, 'The Transformation of London', *Tudor Studies* (1924).

[12] *Abstract of the Rules and Regulations by which Hutcheson's Hospital is governed* (Glasgow, 1800), p. 54. R. Reid, *Old Glasgow and its Environs* (Glasgow, 1864), pp. 366, 7.

[13] W. H. Hill, op. cit., p. 87. 'As the Hospital was situated in the most public and best frequented street in Glasgow, the Patrons found it expedient to abandon altogether the idea of using it as a Hospital, and to convert by far the greater portion of it into shops and warehouses, which are let at high rents, by which a considerably larger income is raised for the charitable purposes . . . than could have arisen from keeping it under its original form and management'.

[14] *Constitution, Rules and History*, p. 91. By 1820 charitable provision was being made for 213 old people and 102 boys instead of 12 old men and 12 boys whose maintenance had been envisaged by the donors. W. H. Hill, op. cit., p. 184. This is the 'augmented stream of bounty' he discusses, op. cit., p. 108.

[15] For a yearly feu of £258. *Abstract etc.*, p. 57. This was an investment made on behalf of the Dumbarton Glass Work Company and was intended to be a speculation not in building-sites but in mineral deposits. See *Glasgow, Past and Present*, I, 155. Houston and Dunlop had taken an option on the coal lordship even earlier: i.e. for 38 years from 1768, *Abstract etc.*, appendices p. lxxxviii. See also British Parliamentary Papers, April 1800, p. 13.

and Kirkcroft, another 20 acres, went to David Laurie, completing a strip running between the old and new bridges, a quarter mile from west to east and a half mile from north to south.[16] Other lands, to the east of the old village of Gorbals, in St. Ninian's Croft, later known as Hutchesontown, were feued out to Robert Thomson, William Dixon, Andrew McKendrick and others; though Dixon's, at 46 acres, was the last of the big feus.[17] Protests had already been lodged earlier against the alienation in such large blocks of so much of the Hospital's estate.[18] Partly, no doubt, the criticisms were stilled by the argument that the Hospital was simultaneously 'inducing men of means to speculate in the erection of building'—an obvious public duty—and also increasing its own income far beyond that originally envisaged by the Hutcheson brothers.[19] It is true that the feu duties realised by these sales brought in five or six times the land's former agricultural rents and solved all the immediate financial difficulties of the charitable corporation, whilst temporarily satisfying the public demand for house and business accommodation.[20] But the chief profit in these transactions undoubtedly went to the middleman, and as W. H. Hill admits in the official History 'It is difficult to say whether the Patrons were too greatly influenced by interested parties in the early stages of their feuing operations.'[21] However, as the extent to which the charitable corporation had divested itself of its patrimony became apparent the administrators introduced a policy of feuing in much smaller portions by public auction, thereby retaining the profit which, by Hill's admission 'fell, in the case of

[16] 'After a public sale and some competition', *Constitution, Rules and History*, p. 150.

[17] *Constitution, Rules and History*, p. 94.

[18] 5 July, 1787, W. H. Hill, op. cit., p. 86. 18 February, 1 March, 1791, ibid., p. 88.

[19] The average income of the Hospital, which had stood at between five and six hundred pounds per annum in the 1770's, rose to a thousand pounds by the late 1780's and to three thousand pounds by 1810. W. H. Hill, op. cit., pp. 287-8.

[20] The yearly agricultural rents of Tradescroft and Kirkcroft, for example, were £44. 8. 0. and £78. respectively. These amounts were increased to £242. and £529. per annum when the two crofts were feued to Laurie. *Constitution, Rules and History*, pp. 92, 93, 150.

[21] W. H. Hill, op. cit., p. 130. It is now *impossible* to say. Neither the Hutcheson Trustees nor Messrs. Hill & Hoggan, West George Street, Chamberlains to Hutcheson's Hospital know the whereabouts of the minutes which were used by W. H. Hill in his *History*, 1881.

the larger and ultimately subdivided feus, to the boldly speculative middleman.'[22]

Who were these speculative middlemen? What problems and opportunities opened out before them during the expansion of the old City to the west and south in the half century after 1770?

II

Unlike the speculative builders and owners of real estate in London, the men who turned from trade, manufacture and landowning to cut the new roads and provide building sites to the south and west of Glasgow's old centre were chronically short of capital and had a relatively small field of potential investors on which to draw.[23] Amongst late eighteenth-century builders only Dugald Bannatyne was successful in attracting substantial amounts of English capital. His son's *Memoirs of Dugald Bannatyne* relates how, perceiving 'the demand for an improved style of dwelling house occasioned by the prosperity of the city and the rapid increase of its population', Bannatyne, although he had been trained as a stocking-weaver, 'became a partner along with Mr. Robert Smith, Mr. John Thomson and others, *supported by English capitalists*, in an

[22] The feus granted by Hutcheson's in the decade 1790-1800 averaged over 5,000 sq. yards at 10¾d. per sq. yard. The improvement effected by the new policy can be seen in the following table, based on W. H. Hill, op. cit., appendix XX.

	Number of steadings	Total feued in sq. yards	Average size	Average price per sq. yard
1790-1800	40	205,333	5,133	10¾d.*
1800-1810	80	137,641	1,720	3/5d.
1810-1820	2	1,416	708	2/4¾d.
1820-1830	21	37,722	1,796	8/2½d.

* The Trades House in the same period was averaging 1/6d. per sq. yd. See George Crawfurd, *A Sketch of the Rise and Progress of the Trades House of Glasgow* (Glasgow, 1858), p. 186.

Some idea of the profit which must have fallen to the speculative middleman can be gained from the contrast between the income which the Hospital received in 1849 from Laurie's 47 acres and that from later feus. Laurieston, though accounting for over a quarter of the area, provided only a fifteenth of the income (£1,029 out of £15,000). Barr's Park, though only 43 acres, brought in £6,120. Cf. W. H. Hill, op. cit., p. 291 and *Abstract*, appendices pp. lxxxvi-xci.

[23] Even Kirkman Finlay and Henry Monteith burnt their fingers when they undertook to raise enough money to open London Street by means of a joint-stock company in 1824. R. Renwick, *Glasgow Memorials* (Glasgow, 1908), pp. 39-43.

extensive building scheme'.[24] The *Memoir*, unfortunately, gives no clue to the identity of the English capitalists who helped sponsor the formation of the 'Glasgow Building Company' (as the Bannatyne partnership was called) but according to a manuscript note by John Buchanan, a loan of £100,000, secured against mortgages on the ground and the buildings due for erection, was advanced by Ichabod Wright, banker in Nottingham.[25]

This was a particularly interesting example of the way in which an Anglo-Scottish family business connection could lead to the transfer of capital. The apparently arbitrary choice of a Nottingham banker was, no doubt, due to the partnership between Bannatyne's father and Mr. Johnstone, the Nottingham stocking-weaver. Dugald had, in fact, been sent to Nottingham to learn the trade in 1772-7, and Mr. Johnstone's brother-in-law was the John Thomson who became one of the principal partners in the Glasgow Building Company.[26]

[24] Andrew Bannatyne, *Memoir of Dugald Bannatyne* (Glasgow, 1896), p. 51. A contemporary, Henry Riddell, speaking of the original conception of the enterprise mentions specifically that the company was organised 'for the purpose of creating a class of houses designed to meet more fully the growing wants of the prosperous city merchants'. G. Stewart, *Curiosities of Glasgow Citizenship* (Glasgow, 1881), pp. 133-4.

The feu contracts and disposition of sale for the Ramshorn lands reveal that, though the city notables may not have been prepared to plunge into full-time property speculation they knew a good site when they saw it. The names of David Dale, Patrick Colquhoun, Robert Dunmore, Brown, Carrick & Co. and others locally known all appear, but their purchases are dwarfed by those of Robert Smith jnr. of the Glasgow Building Company. The table below (founded on R. Renwick, *Extracts*, VIII, 623, 642-50, 653-5, 658) covers the busy period July 1786-March 1788 during which most of the lands were purchased.

Feuars		No. of contract	Area in sq. yards	Cash payment	Yearly feu
J. Campbell, D. Dale, R. Dunmore, A. Grinday	.	1391	1,162	£58/2	£2/18
Brown, Carrick & Co.	. .	1392	6,484	£419/13	£15/2
		1413			
		1441			
W. & J. Coats, P. Colquhoun, J. Riddell and others	.	1393	2,937	£121/17	£6/1
R. Smith, jnr.	. . . .	1395	21,350	£1,343/13	£67/7
		1397			
		1424			
		1425			
		1426			
		1427			
W. Shortridge	. . .	1400	4,634	£347/11	£17/7
The rest	. . . 1410	1389	17,380	£820/4	£37/0
	1415	1390			
	1416	1396			
	1430	1398			
	1432	1409			

[25] The note is cited in James Muir, *Glasgow Streets and Places* (Glasgow, 1899), p. 60.

[26] Andrew Bannatyne, op. cit., p. 23. Andrew Thomson's bank failed in 1793, see G. Stewart, op. cit., p. 241.

John Thomson's father Andrew, of A. G. & A. Thomson, bankers in Glasgow, put up a further £20,000. This considerable sum of £120,000 was expended over the years 1786-96 on building what was called the New Town; an ambitious and important scheme, but one of doubtful profit for the original sponsors.[27]

In 1796 the partnership was reorganised to include William Jack and James Cleland, the historian; and under their direction further extensions were made over the next ten years, the progress of which are duly chronicled by Cleland.[28] In 1807 another transfusion of capital, some £210,000, came from Messrs. W. & J. Carswell and over the next twelve years the opening of streets and squares continued not merely over the old Hutcheson properties of Ramshorn and Meadowflats but right across the lands of Colonel John Campbell, where 'the magnificent town of Blythswood', as Cleland calls it, had been built by 1837.[29]

The Campbells of Blythswood, holding some 470 acres of land which they could release into the urban building market, are the nearest counterparts in the Second City to London's Dukes of Westminster and Bedford. Unlike them, however, they could not draw upon extensive rent rolls from improved agricultural land or from existing urban properties to capitalise the crucial first stages in estate development. Up to a quarter of the substantial income of Rachel, Lady Russell, had come from 'the immemorial leasing of fields and grazing rights', and under the improvident 3rd Duke the timber of the Woburn Abbey estates was cut down and sold to prevent the sacrifice of city properties.[30] Unlike the Campbells, the Russells were able to impose 21 years' leases which could be revised when they expired. The fines on renewal of a lease—as much as £300-£400 per house—must, in Scott-Thomson's opinion 'have formed a very pleasant capital account for the Duke of Bedford'.[31] The forbidding of subinfeudation in England in the late thirteenth century obviously had lengthy repercussions for urban landowners.

Another striking contrast between the English and Scottish family

[27] J. Cleland, *Rise and Progress of the City of Glasgow* (Glasgow, 1820), p. 108.

[28] J. Cleland, *Annals*, I, 31-45.

[29] J. Cleland, *An Account of the Former and Present State of Glasgow* (Glasgow, 1837), p. 6. J. Cleland, *Statistical Facts* (Glasgow, 1837), p. 23. For references to William and James Carswell, Wrights, see R. Renwick, *Extracts from Burgh Records*, VIII, 697 (building a Bridewell in September 1795) X, 52 (buying land in Candleriggs in 1810) X, 408 (in partnership with Edward Khull & Co., Matthew Park, James Ballantine, James Paterson, John Spencer, John Smith, 1817).

[30] Gladys Scott Thomson, *The Russells in Bloomsbury* (1940), pp. 58, 188.

[31] Ibid., pp. 186, 187.

emerges when one considers the relative speed at which the Blythswood and the Bloomsbury estates were developed. The development of the Bedford estates occupied the lifetime of Lady Rachel and the 2nd, 3rd and 4th Dukes. It was a more leisurely enterprise altogether, carried out in an unhurried way and with the assistance of full time professional agents, lawyers and bankers: and the patience of the 4th Duke with his long-term yield investments in urban property was no doubt increased by the rich pickings he received from perquisites and salaries in the central government.[32] The estates, in short, were not squeezed; even the fines on renewing a lease were frequently remitted to enable repairs to be carried out on the Bloomsbury and Covent Garden estates. All this was in marked contrast to the precipitate policies necessitated by the one generation of rapid growth in Glasgow.

Indeed the Campbells' venture into urban estates began almost inadvertently with the feuing out of a parcel of marginal land which they considered too poor for agricultural use. The success of development on the portions detached from the Blythswood lands, especially those feued to the imaginative speculator William Harley, encouraged demand for other portions of the remaining estates, where sums equal to two or three hundred times the agricultural rents were realised within a generation.[33] Within forty years the Campbells' rent roll increased from £223 to £12,500 per annum.[34]

The Campbells were fortunate in being a comfortable and well-established family and were able to realise a long-term profit by holding on to their lands; but because they suffered from shortage of capital in the really substantial amounts required for urban development they had to play a passive role and leave the risk of the exploiting, piece by piece, of their lands to individual speculators[35] The

[32] Ibid., pp. 298-311.

[33] For William Harley, who expended a capital of £54,000 on his portion of the Blythswood estates, see J. Galloway, *William Harley* (Ardrossan, 1901), p. 57. In Harley the agricultural improver and urban speculator were most curiously combined. See W. Harley, *The Harleian Dairy System* (Glasgow, 1829).

[34] J. Cleland, *An Account*, p. 7.

[35] Some writers, including Reid (Senex) have attributed the Campbells' policy to a deliberate canniness. Blythswood 'lay quietly past on his oars, reaping the advantages of those meliorations'. The Campbell land, originally bought from the City at less than a farthing per square yard, had been 'turned into a mine of gold, not by the spirit or energy of the late Blythswood, but principally by the enterprise of William Harley. . . . Notwithstanding of this, we look in vain for the Campbells of Blythswood amongst the benefactors of the city'. 'I am not aware of any family in Glasgow, or its neighbourhood who owe so great a debt of gratitude to our citizens as the Campbells of Blythswood'. *Glasgow, Past and Present*, I, 325.

Blythswood family gain was an indirect one, in the enhanced values of the undeveloped and unsold portions of the estate which they retained.

The basic dilemma of a property speculator in a capital-hungry society is well illustrated in the case of the Blythswoods. In order to enhance the value of their land they had to part with pieces of it. Their enterprise lay chiefly in the apportioning and timing of these piecemeal sales; they could not afford both to retain ownership and sponsor development.[36]

The same shortage of capital can be seen behind the ruses and expedients of the third of Glasgow's property speculators singled out here for study—David Laurie, who laid out the estate named after himself on part of the old Hutcheson estates in the Gorbals.[37]

Unlike Dugald Bannatyne and the Campbells, David Laurie was neither a member of an established landed family nor closely connected with the commercial and administrative life of the city.[38] His business career and that of his brother James was punctuated by bitter arguments with both the local Heritors and Police Commissioners and by rebuffs from the Glasgow Town Council.[39] He was, in fact, an outsider, with neither sufficient background and influence in civic affairs nor sufficient capital to smooth the execution of his grandiose plans. He was, in addition, an extremely vocal protester, leaving more than half a dozen eighty-page *Hints, Memorials, Narratives of Grievances* and the like.[40]

Apart from these partial utterances, the Laurieston Feuing Book also survives, giving full details of the sale and resale of properties in the district over a period of 25 years.[41] By the end of this period

[36] Their enterprise also lay, perhaps, in developing the necessary connections to overcome legal difficulties which arose. See R. Renwick, *Extracts from the Burgh Records*, VII, 294, 679 and 32 Geo. III, c. 40.

[37] Laurie purchased the Dunlop/Houston lands to add to his adjacent holdings. *Constitution, Rules and History*, p. 154.

[38] A member of the Campbell family had been provost at the time of the Blythswood purchase; the partners in the Building Company included a bailie and his son (Robert Smith and Robert Smith, jnr.) and James Cleland who was secretary of the Chamber of Commerce (1809-30), Postmaster (1806) and Superintendent of Works (1814). For Bannatyne, see *Memorial Catalogue of the Old Glasgow Exhibition* (Glasgow, 1894).

[39] David Laurie, *Hints respecting the Regality of Gorbals* (Glasgow, 1822), pp. 27-30. 'It fell to our lot to meet the full force of the litigious disposition of the Bridgend heritors'. See loc. cit. p. 33 for the 'outrageous, drunk, insane bawling at the heritor's public meeting'. For the quarrel with the Police Commissioners see David Laurie, *Memorial setting forth certain grievances in the Barony of Gorbals* (Glasgow, 1813), p. 21.

[40] See infra, pp. 224 et seq.

[41] The Laurieston Feuing Book, a MS. volume of 512 pages with a feuing plan by William Kyle. Mitchell Library 548595. I should like to express my indebtedness to the Librarian and staff of the Mitchell Library's Glasgow Room, and to Mr. G. C. Emslie of the Old Glasgow Museum.

the 47 acres which David Laurie had originally purchased in 1801-2 had been divided into 374 separate properties ranging in value from £1500 for the Carlton Place sites, to £200 or so for nondescript sites in the interior of Laurie's block holding.[42] But the creation of this estate was by no means a smooth and efficient operation. For many years it was at an almost complete standstill; at other times building activity was very intense, especially between January 1818 and December 1821.[43] In those four years as many property deals were carried through as in the first seventeen years of landownership by the Lauries. Afterwards the rate of building slackened off a little, but by March 1826 feuing in Laurieston was completed.

Seventeen years is a long time to hold property without the expected returns, and in Laurie's case the years 1801-18 were punctuated by a series of unwelcome events, all of which pointed to the future depreciation of his holding. During this period, therefore, we see him unloading part of his holding on to those speculators willing to come in with him, and raising further capital by taking money at interest from clergymen, widows and others prepared to accept his bond and guaranteed annuity.[44] But during these slack times the only substantial customers were his brother James and local wrights and masons, like John Binnie, John Campbell, James Ballantine, with specific building plans in mind for single or double steadings.[45] The only person who purchased as a speculation in the early days was Dugald Bannatyne, who invested in a steading in Carlton Place in 1802, but sold out within three years and showed no further interest in the district.[46] Only as the market improved, in 1815, did other middlemen show willingness to purchase blocks. In May, 1815, 15 steadings, over 10,000 sq. yards, were sold to Mathew Montgomerie, writer. It presently transpired that Montgomerie was acting as agent for Robert Thomson, of the Glasgow Building Company.[47] In the same month Robert Ferrie, [48] whose name appears conspicuously in the Town Council records and on William Kyle's feuing map for Rams-

[42] See Laurieston Feuing Book, fols. 95, 122.

[43] Ibid., fols. 187-353. It is perhaps worth noting that J. K. McDowall, op. cit., p. 53, speaks of the mansions in Laurieston 'going up in 1818'.

[44] Laurieston Feuing Book, fols. 96, 132. On one occasion a £1,000 bond at £50 per annum is mentioned, on the other an unspecified loan sufficient to yield £200 per annum.

[45] Ibid., fols. 5, 87, 124, 125.

[46] Ibid., fols. 83, 107.

[47] Ibid., fols. 148, 155.

[48] Ibid., fol 150. Robert Ferrie was a builder in the New Town around St. Vincent Street. See Feuing Maps, II, 27 (Royal Faculty of Procurators' Library). He was a member of the wrights, a bailie, and in 1818 became, for a time, Superintendent of Public Works. R. Renwick, *Extracts from the Burgh Records*, VII, 639, 648, 659.

horn and Meadowflats, came forward to relieve Laurie of another block of building sites. It was only after these purchases that the actual running-up of houses and tenements gained impetus.

The form capital shortage took in David Laurie's case then, was that, having possessed himself of an unduly large portion of urban property, he allowed the greater part of it to fall into semi-dereliction and to be spoilt by the encroachments which were bound to take place in default of any positive development work sponsored by the superior of the land.

III

The three speculative partnerships or families in Glasgow whose fortunes have been briefly outlined above were responsible, during the crucial years 1780-1830, for nearly three-quarters of all the building land added to the growing city.[49] The actual building itself was carried out by small masons or wrights, 'taskers' as they were called, men with capital, on average, of about £500. Thomas Binnie (1792-1867), who was one of these subcontractors, quotes an estimate from the Trades House records for the early 1820's that there were some 44 of these master-builders, employing 1,744 masons and a fluctuating number of casual labourers.[50] This accords quite well with the apparently low estimates of 70 to 160 houses building at any one moment in Glasgow made by Patrick Colquhoun in 1810-11 and by James Cleland in 1815.[51] The master builders were men whose investment in the land was intentionally short-term and fairly small; they bought a convenient parcel, built and sold. Consequently they did not encounter many of the hazards and responsibilities of the long-term estate speculators.

The careers of Bannatyne, of William Harley (the Campbells' principal feuar) and especially of David Laurie illustrate how extensive these risks were, and also how novel and ill-defined the duties of the late eighteenth century land speculator. Any entrepreneur who thought that investment in building land was merely a matter of making a timely selection, of tying up some capital and staking out and enclosing the land was due for a series of unpleasant and expen-

[49] The proportion is arrived at through comparison of John McArthur's map, 1778, with David Smith, *Glasgow and its Environs* (Glasgow, 1828). The actual progress of building can be clearly seen in P. Fleming's large scale map, 1807.

[50] Thomas Binnie, *Memoir of Thomas Binnie*, 1792-1867 (Glasgow, 1896), p. 78.

[51] Patrick Colquhoun, *A Treatise on the Wealth, Power and Resources of the British Empire* (1815), statistical tables, pp. 40, 41. James Cleland, *Rise and Progress*, p. 41.

sive surprises.[52] In fact, estate ownership involved not merely continuous vigilance against encroachments and the provision of certain basic social utilities, but also, if the property were to appreciate in value, the encouragement of a wide range of other amenities ranging from Churches and Lancastrian Academies to Assembly Halls and markets. The difficulties in the way of establishing a successful estate in Glasgow were, therefore, extremely wide-ranging, and extended far outside the strictly business field into the affairs of local government and the concerns of Turnpike trusts, Canal companies, the River trustees, the Statute Labour Fund and many other statutory authorities.[53] The apparent 'failure of enterprise' in the building industry, compared with the signal success of a small handful of Glasgow families in commerce and manufacture over the same period, can be explained almost entirely in terms of these unsought and burdensome responsibilities.

The first stage of estate development did, in fact, involve no more than the surveying, legal conveyance and staking out of the prospective purchase, but this was the beginning, not the end of the speculator's function.[54] Quite often the feu contract specified that building should take place on the land which had been purchased within a certain time limit. In the case of the Hutcheson lands one year was the time commonly specified; the Corporation also bound the owners by their title deeds to build within a certain time and permission to postpone building had to be obtained.[55] The style in which the building was to be carried out was not always the free

[52] As the successors to Harley discovered; Messrs. Archibald Cuthel, James Cooke and Hamilton Garden proved to be unable to hold on to their feus and went to the wall. *Glasgow, Past and Present*, I, 321: J. Galloway, op. cit., p. 27.

[53] See David Laurie, *Information respecting Eglinton Street and the Great Entrance into Glasgow from the South-West* (Glasgow, 1824), for turnpike disputes south of the river: similar disputes to the north of the river are the subject of Petitions collected by James Spreull, City Chamberlain (Mitchell Library B 645844). *The Clyde Trustees Reports, 1755-1853* (Mitchell Library G 268), touch on the problems created by the river dredgings, breastworks and weir building, a matter also discussed, from the landlord's point of view by David Laurie, *Hints etc.*, pp. 30, 31. *Memorial*, pp. 9, 43. For the Statute Labour Fund see 47 Geo. III, c. 29 and c. 45.

[54] See R. Renwick, *Extracts from the Burgh Records*, VIII, 67, for the actual staking and enclosure of St. Enoch's croft in 1782.

[55] W. H. Hill, op. cit., p. 166 'in a manner not inferior to that stated in the articles of roup and within the first year'. R. Renwick, op. cit., VIII, 586.

choice of the entrepreneur.[56] The relationship between the Corporation, the Glasgow Building Co. and the Blythswoods was particularly harmonious in this respect. Dugald Bannatyne was not merely senior partner in the Company, he had been a member of the Council and knew its procedures and members, indeed he only resigned in 1788 on becoming an interested party.[57] He also took care to co-operate with Colonel Campbell, even to the extent of employing his architect, Mr. Craig of Edinburgh, to make the plans of Meadowflats.[58]

Apart from the plan and style the question of the character or 'social tone' of the neighbourhood was influenced by the official regulations. Those drawn up for the Ramshorn and Meadowflats lands, and effectively backed by the Corporation's promise of enforcement, prohibited the manufacture of soap, glue, candles, cudbear, bricks and tiles, the tanning of leather and other noxious trades which would spoil the character of the neighbourhood.[59]

David Laurie's estate, however, was far less fortunate, for although Hutcheson's Hospital and the Trades House had made half-hearted regulations against nuisances on their properties they had themselves made two notable exceptions by their feus to a large brick and tile making works and to William Dixon the colliery owner and ironmaster.[60] Both of these enterprises made poor neighbours. 'In the field close adjoining,' David Laurie wrote, 'operations that are inconsistent with our tenure are kept going; clay pits are being dug, bricks burnt. . . . The Trades House has got itself somehow so entangled with some brickmakers that it has, in effect, done all that it was possible for them to do to mar the effects of our improvements; and thereby, for the present, it depresses the value of property on Eglinton Street almost beyond estimation.'[61]

The clash of interests between David Laurie and the Govan Coal Company was even more serious. For although access from the Govan coal pits to the basin of the new Eglinton/Ardrossan canal could be secured without inconvenience or trespass, access from

[56] The University of Glasgow Archives contain a feu contract (Title Deeds, 11628) between the Trades House and John Gilchrist, one of the Gorbals builders. The document, dated August 1804, contains not merely the usual nuisance clause but also specifies stone fronts and slate roofs, prohibits thatching, even for the back buildings, and prescribes causewaying and a plan of building. I am indebted to Mr. D. Wilson Reid, Archivist, for this reference.

[57] R. Renwick, op. cit., VIII, 265.

[58] R. Renwick, op. cit., VIII, 444, 475.

[59] R. Renwick, op. cit., VIII, 191 (1786).

[60] *Constitution, Rules and History*, pp. 92, 93.

[61] David Laurie. *A Narrative of Grievances in the Gorbals Barony* (Glasgow, 1813), p. 14.

Govan to the riverside coaling quays at Windmillcroft would lead diagonally across David Laurie's supposedly elegant estate. The argument concerning right of access was bitterly contested on both sides and was finally settled by an unscrupulous *coup de main.*[62] William Dixon secured from the Sheriff of Lanarkshire a temporary recall of Laurie's interdict prohibiting operations to build a railway across his property. This was on a Saturday afternoon and the work was pushed on so vigorously that by the time Laurie came to know of it, on Monday mid-day, the pavement of Eglinton Street, his principal avenue, had been torn up and an embankment built surmounting the lower parts of Laurie's feu to carry the Govan Coal Company's trucks to the riverside. The saving to the Govan Coal Company was about £2,000 per year but the effects upon the ambitious new Laurieston estate were most adverse. In a pamphlet addressed to the Trades House, Hutcheson's, the South Western district Road Trustees and the Lord Provost and Town Council, Laurie cited as 'a direct proof of the deteriorating effect of this railway . . . five acres of ground, not more distant from the new Town House than the lands of Meadowflat, which are selling at from one to two guineas per square yard, were, under the burden of this railway, sold for less than one shilling'.[63]

Laurie's estate was particularly susceptible to the operations of local industrialists. He had, as he was careful to point out, selected a site lying to the South or *windward* of the city and had laid it out 'according to one plan and design, whereby it was in a manner set apart for houses of a superior description'.[64] He had taken in hand the former 'Washing Green', which lay between the southern extremities of Glasgow's two bridges, renamed it 'Carlton Place', in honour of the Prince of Wales' residence, and brought in Peter Nicolson as designer and Italian artificers to execute the work at a cost of over £9,000.[65] The old Shields and Paisley loans (in McArthur's map) were renamed Cumberland and Norfolk streets; other new or renamed streets in his estate added to the roll-call of English peers: Bedford, Cavendish, Oxford, Portland, Salisbury, Surrey, Warwick and Marlborough. These names, in many cases, were attached rather incongruously to unmade tracks, but they were at any rate a token of David Laurie's intentions for the area.[66]

[62] David Laurie, *Memorial*, p. 26.
[63] David Laurie, *A Narrative*, p. 12. The probable date of this episode is 1809.
[64] Ibid., p. 9.
[65] David Laurie, *Memorial*, p. 70.
[66] See *Memoirs and Portraits of One Hundred Glasgow Men* (Glasgow, 1886), I, 35 and Peter Fleming's map (1807).

In a town growing and changing as rapidly as Glasgow in the first decade of the nineteenth century, nothing could be more vulnerable than David Laurie's plans for a high-class residential area. Even if he had been able to win his battle with Dixon, to maintain the gates with which he attempted to prevent dung and coal carts from claiming right of way through Carlton Place, and to win all of the dozen processes at law in which he was simultaneously engaged, it is doubtful whether the social tone for which he hoped would have been established.[67] To make an area 'desirable' requires not merely defensive but also positive measures.

Laurie himself was obviously aware of this. 'At Meadowflat a regular plan of systematic amelioration has been kept going, that has advanced their value out of all comparison'.[68] When he had bought his own land, he explained, he 'had conceived it to have been the design of the Public Bodies (i.e. Hutcheson's and the Town Council) to introduce this property in small morsels to the market, accompanied with appropriate improvements, in the same way as was done by them in regard to Meadowflats'.[69]

He had been acutely disappointed by the outcome. The Trades House, though it had insisted on spacious avenues and stone and slate houses, had done nothing more to help its feuars; and its adjacent project of Tradeston had soon lost its force and building stopped. By 1812 the Managers of the Trades House were doing no more 'than hold up property in the prospect of its rising in their hands from the improvements which it was expected that some of the other parties interested would execute'.[70] The other great proprietor and neighbour, Hutcheson's Hospital, had entered more cordially into schemes for improving the district 'by executing those expensive general operations that were necessary to introduce their ground with full effect into the market'. They had spent nearly £10,000 on the river breastworks to prevent inundations and had contributed liberally to a bridge which 'if it had not given way, would have brought their property in a manner into the very centre of the city'. But both institutions had built their new halls of residence in the North 'where they decorate the debouchment of the town leading into the lands of Blythswood . . . giving to the course of

[67] See David Laurie, *Memorial*, p. 12, for the dozen processes. On the controversy over right of way see R. Renwick, op. cit., X, 608, Mr. James Oswald's 'Committee of Gentlemen for the purpose of having removed the iron gate at the West end of Carlton Place.'

[68] David Laurie, *A Narrative*, p. 12.

[69] Ibid., p. 15.

[70] David Laurie, *Memorial*, p. 43.

improvement from their proper quarter of the town a turn still more decisive than formerly'.[71]

Instead of an energetic policy of improvement, pursued jointly by a group of financially-interested individuals, a spirit of cautious economy prevailed in the Gorbals. 'Our Barony', Laurie complained, 'has fallen into the hands of Hospitals and isolated improvers, who, while they stand in want of public countenance and protection, are traversed even in their most public-spirited undertakings by those very parties to whom their services are of most essential importance'.[72]

In the Meadowflats and Blythswood lands the provision of social amenities was, in fact, the work of many individuals and public bodies. Bannatyne not merely built houses but subscribed generously towards a theatre; his partners, the Thomsons, provided a market, though the enterprise failed; Harley not merely provided metalled roads and well planned squares but the first water supply, a large dairy and pleasure gardens.[73] Community building schemes on the Tontine principle constructed assembly rooms, a coffee house and a number of tenements.[74] The Glasgow Building Company and Corporation encouraged men of note to set an example by taking houses themselves on the new west-end estates.[75] Cleland, as Superintendent of Public Works, pursued a generous policy with money from the Statute Labour Fund.[76] The Town Council itself took out statutory powers to cut streets through the network of small proprietors fringing the new estates, using compulsory purchase powers where

[71] Ibid., pp. 45-8.

[72] Ibid., p. 74.

[73] For Bannatyne's part in raising £18,000 in 1803 see *Glasgow, Past and Present*, III, 429. The Thomsons erected a market in Low John St. Meat was sold downstairs, poultry and eggs on the first floor. After the venture failed in 1794 the upper floor was converted into the Andersonian Lecture Room, and both Birkbeck and Ure later lectured there. For Harley see J. Galloway, op. cit., passim., or G. Eyre-Todd, op. cit., III, pp. 405-8.

[74] J. Cleland, *Rise and Progress* (Glasgow, 1820), pp. 133 et seq. describes the interesting Tontine Scheme of 1781 for the coffee house and assembly rooms, and the Hutcheson Street Tontine Scheme of 1797 to construct three tenements. The MS. Account Book of the Tontine Society, 1782-1820, and the List of Subscribers survive in the Mitchell Library (311718-9). By 1820 43 of the 107 original nominees were dead and the divisions per £50 share had risen from £3.15 per annum to £20 per annum. The last survivor, a Miss Cecilia Douglas, died in 1862 at the age of 91. Nomination was usually made on the life of a young relative. A similar fund, to raise £20,000 in 800 £5 shares was established in 1816 'with power to invest in the immediate purchase of heritable property in the City of Glasgow', see MS. 310477. The Tontine principle was a popular and successful means of raising funds for building and it is surprising that it was not more widely used.

[75] R. Renwick, op. cit., VIII, 216.

[76] G. Eyre-Todd, op. cit., III, 422 et seq.

necessary to deal with the owners.[77] Permission was obtained from Parliament for a public lottery to pay off debts incurred in cutting one thoroughfare.[78] Campbell of Blythswood, who was also M.P., secured the removal westwards of the toll-bars of all the turnpikes on his property.[79]

By contrast with this, south of the river, the vigorous and successful defence of existing tolls (by the Renfrewshire Road Trustees and the Pontage Commissioners for the river bridges) had the result that 'The community on the lands of Laurieston on one road are locked in betwixt two tolls within 700 yards distance and pay full toll at one on going into Glasgow and at the other on going into the country'.[80]

David Laurie himself, though short of capital, showed the utmost ingenuity and energy in trying to interest other parties in investment to build up the missing social capital. He and his brother subscribed largely to the building of a fine church on Carlton Place.[81] He also disposed a site 'for one of the most respectable of the United Secession interests' in 1819. 'But although that interest has since that time laid out £12,000 in building and rebuilding churches and have lately begun another in the most fashionable part of the city, my stance still remains unoccupied. They are all in eager pursuit of a genteel and respectable audience, such as will pay well their minister and please their fancy.'[82] His active attention to the thoroughfares and internal roads of his estate embroiled him in frequent arguments with both Police and Turnpike Commissioners, with the Bridgend Parish Heritors and the Statute Labour Fund.

Wider plans advanced by Laurie, and outlined in privately printed pamphlets addressed to the public at large, to influential individuals like Kirkman Finlay and to officials ranging from the Lord Advocate of Scotland to the members of the Town Council, included the establishment of a town-hall, a large public market and a Grand Academy erected on Mr. Lancaster's plan. The town-hall, with shops below to defray the interest of the money sunk, was to be built along the road to Carlton Place, as near as possible to the New Church.[83] The public markets (on a site which he had also set aside) were to

[77] 46 Geo. III, c. 74.
[78] R. Renwick, *Glasgow Memorials*, pp. 39, 43; G. Eyre-Todd, op. cit., III, 293.
[79] 28 Geo. III, c. 92; 53 Geo. III, c. 63.
[80] David Laurie, *Observations upon the Gorbals Police Act* (Glasgow, 1823), p. 29.
[81] David Laurie, *Memorial*, pp. 29, 30. *Glasgow, Past and Present*, I, 360 alleges that Laurie's feu to the church was exorbitant.
[82] David Laurie, *Hints*, p. 65.
[83] David Laurie, *Memorial*, p. 52.

provide fresh vegetables for the residents of the area and for victualling the ships which at that time were calling at Cork to take on fresh foodstuffs.[84] The Academy was to serve a quarter, or even a third, of the population with instruction in languages, chemistry and mathematics, charging graduated fees for seats at the lectures according to whether one could hear or not.[85] To make effective these widespread plans for amelioration would require a great deal of re-casting of the shape of local government, and at different times Laurie suggested the heads of bills for altering the Statute Labour Act (in a pamphlet of 1824) the parish machinery (1810) and the Police Act (1822).[86]

IV

The later history of the estates south of the river forms a sequel to Laurie's project and reveals at the same time the consequences of its failure.

By 1822 Laurie was already referring to 'the uncommon proportion of the working-class' living in the Gorbals.[87] Amongst the 'inundation of poor' living on the aristocratically-named streets was included a large number of Glasgow's poverty-stricken Irish immigrants, who showed great ingenuity in avoiding the payment of rents. 'Irish maxims and Irish manners are gaining the ascendancy amongst us' Laurie complained; adding, significantly, that one of the chief reasons a Bridewell should be established was that these newcomers to the Gorbals 'have seldom any furniture on which the landlord can exercise his hypothec; and when they have they combine to deprive him of its value'.[88]

A demand for middle-class residential suburbs certainly existed —Laurie was not mistaken in that—but the second generation of estate developers arising by the 1830's, John Baird, Walter Gibson, Robert Boyle and J. P. Fleming, satisfied it by further westerly extensions on the Glasgow side of the river.[89] The Gorbals remained a residential area of a sort, indeed the residents came to accept 'Dixon's Blazes' as an advantage. 'They soon get used to the sound

[84] David Laurie, *City Improvements* (Glasgow, 1810), pp. 33-6.

[85] Ibid., pp. lxiv et seq.

[86] David Laurie, *Heads of a Bill for vesting certain persons with the office of Trustees on the Statute Labour Funds* (Glasgow, 1824). *City Improvements* and *Observations etc.* deal with suggested reforms of local government.

[87] The rentals estimated by J. Cleland, *Annals*, I, 342-3, suggest that half the total annual rental was realized by a seventh of the houses. The cheaper houses making up the remaining six-sevenths had, for the most part, rentals of less than £5 per annum.

[88] David Laurie, *Hints*, p. 67.

[89] *Memoirs and Portraits of One Hundred Glasgow Men*, I, 21 et seq., 137 et seq. gives information on these later builders.

of the monotonous strokes of Condie's steam hammer; and the bright glare cheers the long winter night, and at the same time does the work of a score of policemen, by scaring away rogues and vagabonds'.[90] But the failure of Laurie's plans for a middle-class residential project had important repercussions. With the arrival of what one might call (speaking in a purely economic sense) the 'second class citizens' there was a strong incentive for the proprietor to introduce another middleman, an agent who would farm the rents, sometimes at only 10/- in the pound, whilst he 'in many cases contrives to sweat 40/- out of the tenants'. The same process began to occur north of the river where residential properties deteriorated. 'Feeling the difficulty of managing a class of people sunk in ignorance and vice', wrote John Carrick in the 1840's, 'the proprietor entrusts his property to the management of a functionary, who is now becoming common in Glasgow; viz. the middleman. . . . When we reflect on the changes incident to a great community, we cannot help feeling that one of the curses of Glasgow, like that of Ireland, is absenteeism'.[91]

On the whole the estates north of the river, the Meadowflats, Ramshorn and Blythswood lands, were not subjected to the same dilapidating influences. But as rents rose the character of the districts tended to change. By the 1840's, the Dean of Guild Court reports were speaking of buildings in St. Vincent Street and Sauchiehall Road being 'disguised into shops, like everything else that a shop can here be made of'.[92] The height of the buildings had increased to 'high and uncomely' proportions in certain areas; and the cramming of further buildings into the wynds was causing 'the whole district known as Blythswood Holm to verge towards a seedy character'.[93]

The same pattern which can be discerned in many British cities, the migration of residents from the inner residential areas built in the early nineteenth century and the conversion of private houses into business, professional and retail premises, can be traced even in the Glasgow Building Company's and the Campbells' estates.[94] But the impetus given by the material improvements effected during the first generation of development assured for the western New Town a fate different from that of the Gorbals.

[90] *Glasgow, Past and Present*, I, 139.
[91] Ibid., I, 36, Dean of Guild Court Reports.
[92] Ibid., I. 86, Dean of Guild Court Reports.
[93] Ibid., I, 79.
[94] Eg. W. Ashworth, *The Genesis of Modern British Town Planning* (1954), pp. 15-46.

In conclusion, it might be asked, how much light does the history of building in these three areas throw upon the motives of the property speculators and upon their levels of response, the 'supply of enterprise', as one might call it?

Unfortunately the surviving dicta of Dugald Bannatyne and the Campbells are very sparse and, for the most part, unrevealing. But David Laurie's outpourings more than make up for any reticence on the part of the others.

David Laurie's self-interest in the matters which, as a typical property-speculator, he raises for discussion is obvious. But the course of his complaints and the fading optimism one can discern behind them, though difficult to capture in any abridgement, give a great deal of insight into why so few men of enterprise could, at this early stage, be interested in the possibilities of property speculation. There might, indeed, be a very satisfactory long-term profit in estate development. But trade and industry also offered very attractive profits; and the prospect of fighting battles on so many fronts together with the essentially co-operative nature of so much development, must have discouraged many middling entrepreneurs.

There were also, as Laurie remarked, in the most interesting of his dissertations, 'a multitude of objects and affairs, all necessary and estimable in an advancing society to which the commercial spirit is incommensurate'. The provision of this social capital—highways, canals, quays and docks, market places and residential estates—all required what Laurie described as 'high, liberal and extended views' amongst the investors.[95] It was doubtful, in fact, whether they could be provided adequately by the individual speculator unless he were a man of outstanding influence, capital and patience.

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[95] David Laurie, *City Improvements*, pp. XII, XXII.

ECONOMIC PROBLEMS OF A MULTI-RACIAL SOCIETY—THE FIJI CASE[1]

I

Introduction

While economic conditions may often give rise to class conflicts, it is not necessary to suppose that the division of classes must follow some rigid Marxist scheme. Divergencies of economic interest may certainly manifest themselves in conflicts between capital and labour, but they can also be observed in relations between producer and consumer, between different producers, and, in certain circumstances, between races and nations.

Fiji provides an interesting example of an acute problem of growing racial tension which has been influenced very markedly by economic factors. In this article, an attempt is made to explain briefly how this situation has come about, and to examine, in particular, the 'strategies' considered or actually employed by the two main racial groups, Fijians and Indians. In conclusion, some remarks are made about possible solutions to the conflict between the main races.

II

The General Economic Situation

Tables I and II present two basic series of economic statistics which give us a shorthand method of describing the economic situation.

The tables tell a familiar story. The economic situation is very similar to that found in many developing countries. Fiji relies heavily on export crops, notably sugar, coconut crops and bananas, deriving something like 25 per cent. of her national income from this source. Indeed, something like half the Net Domestic Product at Factor Cost is represented by agricultural products, and nearly 60 per cent. of her

[1] The author was a member of the *Commission of Enquiry into the Natural Resources and Population Trends of the Colony of Fiji* (The Burns Commission) which reported its findings to the Government of Fiji in March 1960 in *Legislative Council Paper No. 1, 1960.* The author owes much to his fellow commissioners, Sir Alan Burns (Chairman) and Mr. T. Y. Watson but would not commit them to the conclusions reached here.

TABLE I

NET DOMESTIC PRODUCT AT FACTOR COST BY SECTORS 1950, 1953 AND 1957

(£F thousands)

	1950	%	1953	%	1957	%
I Agriculture						
a. Sugar cane	996	5·96	3,613	15·01	3,918	13·69
b. Copra	1,454	8·70	2,484	10·32	2,300	8·03
c. Bananas	144	0·86	261	1·08	298	1·04
d. Root crops	2,476	14·81	3,243	13·47	3,700	12·92
e. Rice	1,022	6·11	1,154	4·79	1,120	3·91
f. Forestry	335	2·00	506	2·10	380	1·33
g. Other	1,529	9·14	1,692	7·03	2,600	9·08
h. Total	7,956	47·58	12,953	53·80	14,316	50·00
II Mining	927	5·54	694	2·88	861	3·01
III Building, Construction and Engineering	1,001	5·99	1,301	5·40	2,083	7·28
IV Manufacturing	1,254	7·50	1,709	7·10	2,485	8·68
V Transport and Distribution	2,509	15·00	3,526	14·65	4,425	15·46
VI Professional and Personal Services	1,628	9·75	2,067	8·59	2,250	7·86
VII Public Administration and Defence	712	4·26	929	3·86	1,230	4·30
VIII Ownership of Dwellings	733	4·38	896	3·72	980	3·42
TOTAL	16,720	100·00	24,115	100·00	28,630	100·00

TABLE II

NET NATIONAL INCOME PER CAPITA AT CURRENT AND CONSTANT PRICES, SELECTED YEARS 1950-57

(£F thousands)

	1950	1951	1952	1953	1957
1. Net Domestic Product at Factor Cost	16,720	19,400	22,000	24,075	28,630
2. *Add* Net Income from Abroad	−845	−642	−1,103	−896	−1,828
3. Net National Income at Factor Cost (1+2)	15,875	18,758	20,879	23,179	26,802
4. National Income per head of total population £F	54·93	62·95	68·01	72·25	74·24
5. National Income per head of total population at constant (1953) prices £F	66·66	70·17	67·60	72·25	67·55

Sources to Tables I and II.

(a) Years 1950 to 1953: C. O. O'Loughlin, *The Pattern of the Fiji Economy, The National Income 1950-53,* Legislative Council of Fiji, Council Paper No. 44, 1956.

(b) Year 1957: Rough estimates by the author. See *Report,* p. 151.

working population are engaged in agriculture. Like many developing countries, too, her economic destiny is in the hands of important forces beyond her control—the weather (e.g. hurricanes) and the international economic situation. While the international price level has favoured Fiji in recent years, this has been at the cost of a rigid system of control over sugar output through the International and Commonwealth Sugar Agreements.

Despite these disadvantages, there is little poverty in Fiji of the kind found in many Asian countries. The average income per head has remained somewhere around £63 sterling which puts Fiji well up the income scale among less-developed countries.

But, in terms of practical politics in Fiji, this kind of comparison cuts little ice. The inhabitants are more disposed to compare their position with Australia and New Zealand: many witnesses in oral or written evidence to the Commission complained of the relative poverty of Fiji as compared to these rich countries.

From much of the literature about post-war Fiji, one would gain the impression of a Crown colony notably free from political disorder and economic strains and stresses. When a minor riot broke out in late 1959, a headline in the *Daily Express* read 'Trouble in Paradise'! However, it has been clear for some time that the modest standard of living achieved without great effort may not be maintained, unless major changes in economic organisation are accepted and, in particular, unless solutions are found to the two major problems considered below, the population problem and the land problem. The magnitude of the task in Fiji can be gathered from the fact that the national income of Fiji will have to grow at something over 3 per cent. per annum if the present standard of living is to be maintained, and that this cannot be achieved, at least in the opinion of the Commission, unless there is (a) a revolutionary change in the system of land tenure; (b) an attempt at curbing the rate of population growth; (c) a determined effort to improve financial administration and to move towards a uniform system of government which will cut across racial divisions and (d) unless a considerable capital grant or loan (nearly £13 mn.[2] sterling spread over 10 years) is provided from outside sources.

[2] It was announced at the end of November 1960 that the British government would make an initial grant of £F. 5mn. towards the development of the Colony over the next 5 years. In the author's opinion, this sum will hardly be enough to achieve the objective of maintaining the present standard of living, given the present economic outlook, including the international economic situation. (£111 Fijian = £100 sterling.)

III

The Economic Basis of Racial Conflict

Before listing some of the more important factors determining racial attitudes in Fiji, it must be made clear that up till now the various racial groups in Fiji have rubbed along with one another tolerably well. It would perhaps be more correct to speak of the economic basis of potential racial conflicts. Nevertheless, there is ample evidence that Fijians and Indians consider that their interests are in conflict and that this conflict may become more acute if the economic situation does not improve.

The Population Problem. In Table III, we show the past, present and the projected future population of Fiji.

The predominant racial groups are the Indians and Fijians, although there are two substantial racial minorities, the Europeans and part-Europeans and the Chinese. In less than half a century, the Indian population has been transformed from a small minority to the largest single racial group, and, if present trends continue, they will soon outnumber all the other races put together. It is the period after the First World War which is of immediate interest to us, because Indian immigration ceased to be an important factor in determining population increase after the abolition of the system of indentured labour in 1916. While both the Fijian and Indian populations have been increasing, the rate of increase has risen in recent years, and the Indian population has grown more rapidly than the Fijian. The average annual rate of increase of population in Fiji between 1936 and 1946 was 2·74 per cent., but between 1946 and 1956 it had risen to nearly 3 per cent. During the latter decade, the Fijian rate of increase was below the average rate of increase at 2·29 per cent., but the Indian rate of increase was well above it at nearly $3\frac{1}{2}$ per cent. Broadly speaking, this differential rate of increase is the result of the fact that Indian women marry earlier and that a greater proportion of their children survive to adulthood.[3]

The rapid growth of an alien race of different habits and customs, and more advanced economically, has caused serious concern among Fijians. They fear that, unless their rights are protected by really watertight safeguards, pressure of population will bring with it loss of ownership of their land, their most important material asset. Those who are conscious of the implications of independence for Colonial territories fear that any guarantee of their rights will be made impos-

[3] For a fuller discussion of the demography of Fiji, see Norma MacArthur, 'Fijians and Indians in Fiji' *Population Studies*, March 1959, pp. 202-13.

TABLE III

TOTAL POPULATION BY RACIAL GROUPS, PAST AND FUTURE YEARS

Year	All Races		Fijian			Indian			Others		
	Population	Index (1921=100)	Population	Index (1921=100)	% of Whole	Population	Index (1921=100)	% of Whole	Population	Index (1921=100)	% of Whole
1881	127,486	81·1	114,748	135·8	90·0	—	—	—	12,738	—	9·5
1891	121,180	77·1	105,800	125·2	87·3	7,468	12·3	6·2	7,912	65·1	6·5
1901	120,124	76·4	94,397	111·7	78·6	17,105	28·2	14·2	8,622	70·9	7·2
1911	139,541	88·7	87,096	103·1	62·4	40,286	66·4	28·9	12,159	100·0	8·7
1921	157,266	100·0	84,475	100·0	53·7	60,634	100·0	38·6	12,157	100·0	7·7
1936	198,379	126·1	97,651	115·6	49·2	85,002	140·2	42·9	15,726	129·4	7·9
1946	259,638	165·1	117,488	139·1	45·3	120,063	198·0	46·2	22,087	181·7	8·5
1956	345,737	219·8	148,134	175·4	42·9	169,403	279·4	49·0	28,200	232·0	8·2
(1961)	(410,263)	(260·9)	(171,248)	(202·7)	(41·7)	(206,819)	(341·1)	(50·4)	(32,196)	(264·8)	(7·8)
(1966)	(489,136)	(311·0)	(197,757)	(234·1)	(40·5)	(254,706)	(420·1)	(52·0)	(36,673)	(301·7)	(7·5)
(1971)	(583,859)	(371·2)	(227,663)	(269·5)	(38·9)	(314,366)	(518·5)	(53·8)	(41,830)	(344·1)	(7·3)

Sources: Census Reports and Projection prepared for the Commission of Enquiry by the Census Commissioner, Dr. Norma MacArthur.

sible if numbers are to count in determining the composition of an independent government. As we shall see, this fear leads the Fijians to support the continuation of the Crown Colony system and with it British protection.

The Land Problem

This problem is a highly intricate one, but reduced to essentials it can be said that the Fijians own most of the land, use little of it, and are reluctant to see it used by other races, even if the users were prepared to pay an economic rent. The importance attached to land is not peculiar to the Fijians, of course, but their sensitivity in regard to the land question may be judged from the fact that when the Commission of Enquiry was appointed, it was immediately assumed by many of them that the Commission would propose to disregard previous assurances about Fijian ownership of land.

There are three forms of land ownership in Fiji. There is first of all Crown Land, about 6½ per cent. of the total area of the Colony, and representing, apart from freehold land for public building, unclaimed land or land reverting to the Crown as *ultimus haeres*. The Fijians still claim this land. Secondly, there is freehold land, about 9½ per cent. of the land area, practically all of which was bought by Europeans in the early days of settlement and often in exchange for trinkets, firearms and drink.[4] The Commission received numerous representations from Fijians who claimed that these early transactions were illegal, but this claim has no substance in it. Lastly, there is land held under customary native tenure, almost entirely Fijian, and representing about 84 per cent. of the total land area. It is communally owned on a family basis. Thus the Fijians, 43 per cent. of the population at present, own 84 per cent. of the land and claim more of it, while the Indians, about 50 per cent. of the population own, as freeholders, less than 2 per cent.

Ownership of land is one thing, but use is another, although this distinction is not often clear to Fijians. The first aspect of use is the problem of the economic value of the land. The economist is naturally sceptical of attempts to determine this value by land utilisation surveys, because the economic value of land depends on the market for its products and the alternative employments of the other factors of production, capital and land, needed to work the land.

[4] This sorry episode in the history of Fiji is vividly described in W. P. Morrell's *Britain in the Pacific Islands* (1960), Chapter VI and R. A. Derrick's *A History of Fiji* (1946).

However, it is worth pointing out that only some 30 per cent. of the land area is suitable for permanent cultivation without major improvement in the form of heavy fertilisation, and extensive drainage, and major soil conservation measures. About 35 per cent. of the land area consists of forest.

Even if one were to allow for 'uncultivable' land, the density of population of Fiji would not be great as compared to that in other tropical countries. However, there is a second aspect of land use, the problem of land tenure, which must now be considered. The land hunger of the Indians has been satisfied to a small extent by the leasing of land, so that the actual land area occupied and worked by Indians approached 10 per cent. and well over half of the land they occupy is leased from Fijians, through the Native Land Trust Board, which was set up in 1940 to issue leases of native lands and to collect and to distribute rents. However, an undetermined but large segment of this land leased to Indians is scheduled to go into reserve as a result of a decision taken in 1938 to demarcate and lay aside Fijian land which could then be used only by Fijians. After two decades, the reserves have only been demarcated for a very small proportion of the land area of Fiji, and there is even legislation which allows the Native Land Trust Board 'from time to time' to set aside as a reserve any portion of native land. In other words, many Indian tenants face the non-renewal of leases on reserve land, and in areas where the reserves have not been finalised but where the broad boundaries of the areas are known, they may only remain as tenants-at-will. Moreover there is evidence that a good deal of the land now in reserve is not being used by Fijians at all, and Fijians have been known, secretly and illegally, to have allowed Indians to occupy such reserve land for a direct payment.

There can be no doubt that Indian land hunger and Fijian determination not to satisfy it has become a serious matter, and this *impasse* could also be a threat to economic advance.

Cultural Differences

Fiji presents a good example of the effects of culture on economic incentives, and the difference in culture between Indians and Fijians has manifested itself in the economic scene in a remarkable way. The Indians as descendants of indentured labourers who have become cut off from their Mother Country, are acutely conscious of poverty and are hard workers. There have been no cultural barriers to prevent them developing as independent farmers and businessmen. The Fijians, on the other hand, have preserved their communal way of

life, and have been given active encouragement to do so from the Fijian Administration. Many of their customs hinder the growth of independent living, specialisation and division of labour. Custom demands constant interruptions in the farming cycle to prepare for visits of officials and chiefs, for weddings and the like; custom demands the fulfilment of village 'programmes of work', such as the building and repairing of houses, and failure to carry out these obligations may result in fines and even imprisonment; and custom demands that loans in money and in kind to relatives cannot be refused. This latter practice, which is known as *kerekere*, hardly encourages industry and thrift; but Government attempts to limit *kerekere* have been anything but successful. While a Fijian may commute his services to a chief and also his communal obligations to his village, by payment, and so become an independent farmer (known as *galala*), the conditions under which exemption may be obtained are stringent and exemption is only granted for five years at a time.[5]

The hindrances to economic advance for the individual Fijian are reflected in the occupational structure. Very few Fijians are self-employed or are members of the professions, although a few, mostly of chiefly rank, are administrative Civil Servants. Of the net profit assessed for tax on individual and partnership business in 1957, less than 1 per cent. came from Fijian businesses. There is no doubt that the Fijians are envious of the Indian's success in business, yet there is still popular support for the communal system which so effectively prevents them from competing with other races. It is distressing to hear the position rationalised by Fijians, many of whom informed the Commission that their race was at a lower level of civilisation than that of the Indians. Such an attractive people deserve to think better of themselves. Those who have managed to break from their villages and set up on their own have, generally speaking, done tolerably well in business, notably in transport.

IV

Fijian 'Solutions'

Emigration. A very large number of Fijians, in evidence to the Commission, suggested that all or a large proportion of Indians should

[5] For a most informative account of Fijian custom and its impact on economic life, see O. H. K. Spate, *The Fijian People: Economic Problems and Prospects*, Legislative Council of Fiji, Council Paper No. 13 of 1959. See also V. D. Stace, *The Pacific Islander and Modern Commerce*, South Pacific Commission Technical Paper, No. 54, for a discussion of the situation in the main Pacific islands.

be deported, little attention being paid either to the humanitarian or legal problems to which such a policy would give rise. Although these problems were pointed out by the Commission, who stressed particularly the fact that a very large proportion of the Indians were born in Fiji as British subjects, the idea of deportation is firmly rooted in the minds of Fijian leaders. The Council of Chiefs, for example, has refused to accept the Commission's recommendation that demands for deportation should be ignored.

The idea of emigration, compulsory or otherwise, is not entirely unacceptable to the Indian community. Indians have also proposed that any of their number not born in the Colony should be repatriated, and that Gujaratis, associated with moneylending activities, should be deported. Furthermore, many Indians have suggested that the population pressure in Fiji could be eased if Indians were allowed to emigrate to Australia and New Zealand. It is frequently pointed out by them that Australians and New Zealanders have little difficulty in entering Fiji as employees of government or business, but that the arrangement is not reciprocal. In short, they want Australia and New Zealand to perform the same role for Fiji as the United Kingdom for Jamaica.

Economic Development. As we have already hinted in describing the policy of creating reserves, there was a concerted movement just before the Second World War by Fijian leaders, notably Sir Lala Sukuna, to close their ranks in the face of growing Indian pressure for land. In fact, the movement went much further than this. Although, in a review of 'native' affairs, the Public Services Reorganisation Committee set up in 1937 recommended the integration of the native administration and the district administration under the District Commissioners, which covered all races; the Fijian chiefs, aided by strong local European support, prevented this. Instead a virtual 'imperium in impero' was established in 1944 with separate taxing powers by the creation of a separate Fijian administration, under a Secretary for Fijian Affairs.

In the 1950's a determined attempt was made to organise Fijian production of cash crops, copra and bananas, almost on military lines. A separate Fijian Development Fund was set up which is being financed by a cess of £10 per ton on all Fijian produced copra, and, although the amount is credited to the individual producer, he can only withdraw his credited deposits with the Fund and use them for approved purposes. Prominent Fijians, some with outstanding military records in the Malaya campaign, were made Economic Development Officers, with the task of advising, and exhorting villagers to meet

production targets. When the Commission of Enquiry visited Fiji in June 1959, an Ordinance awaited ratification by the Governor which provided for a radical extension of the system of produce taxation. Produce taxation was to be extended to other crops, and would no longer be credited to individual producers in proportion to their contribution. In representations to the Commission, the senior officials of the Fijian Administration took it as given that outside grants and loans to Fiji should favour Fijian development and should be administered within the Fijian Administration.

It is impossible in a short paper to embark on a detailed criticism of what amounts to a form of collectivisation without the sanctions which makes collectivist economic organisation a viable method for economic advance. There is certainly little evidence that this method has put the Fijian in a more competitive position vis-a-vis the Indian, and there are already signs that Fijian 'commoners' would prefer to strike out on their own as *galala* or as townsfolk. As Spate put it, 'one cannot be sure of success with a policy of individualism; but I am as nearly certain as one can be in human affairs that one can be sure of failure on the opposite policy of communalism. Between a risk and a certainty of failure, there can only be one rational choice'.[6] Quite apart from the issue of keeping up with the Indians, there is the separate one that the Fijian Administration perpetuates racial isolation and in keeping in being a dual administration it imposes a far greater financial burden on the community than it can afford.

V

Indian 'Solutions'

While it is reasonably safe to talk about the Fijians as a group with similar principles and objectives, this is not the case when one considers the Indian population. The reasons for this are easy to find. They are divided on questions of religion; there are Hindu, Moslem and Sikh communities. They are spread throughout a greater range of occupations requiring different degrees of intelligence and skill. A greater proportion of them are to be found in the towns, and their way of life, unlike the Fijians, may not change very much if they move from rural to urban areas.

Apart from their obvious desire which has been discussed in III above, to have more access to land with favourable conditions of tenure, the main interest of their leaders in furthering Indian interests is in political action. Their leaders are much more interested in

[6] O. H. K. Spate, op. cit., para. 559.

comparing conditions in Fiji with other countries and Colonial territories. Some of them are active trade unionists representing the interests of the farmers' and sugar workers' unions, and have learnt how to use the strike weapon. If they do not have a close knowledge of economic affairs, at least they are fully familiar with the kind of economic information which will favour a trade union case. They follow international events closely, and particularly the move to self-government. They are bound to press strongly for a greater degree of political freedom, and thus for greater say in government, and hope that, if their demands are met, they can further Indian economic interests through the political mechanism.

It is easy to look on some of the more active Indian leaders as self-seeking agitators and trouble-makers. However, if we once grant that the Indians do not want to have their standard of living reduced and assume, for the moment, that population growth remains at the present rate, it is clear that political action is the only thing open to them. If the present land policy continues, if the low rate of capital formation and lack of markets inhibits industrialisation which would absorb Indian agricultural labour, if sugar yields per acre rise without a rise in the demand for sugar abroad,[7] then their standard of living may fall very markedly. A change, therefore, in land policy which is their obvious objective must require a radical revision of government policy and one way of obtaining this is to be in a position to determine that policy.

VI

Can the Conflict be Resolved?

It is relatively easy to point the main economic problems which bedevil race relations in Fiji. It is another matter to suggest a solution. Any solution, in the author's opinion, must call for important changes in the thinking of both racial groups.

One important assumption underlying the proposals given below (which are, roughly speaking, those of the Commission of Enquiry) is that there can be no question of a repatriation or emigration of the Indian population. This assumption, it must be admitted, is one which many Fijians would not like to accept, and may even be queried by Indians.

The first element in any solution is to accelerate the pace of

[7] A Commission of Inquiry with Sir Malcolm Trustram Eve as Chairman has just recommended (September 1961) an increase of 50,000 tons in the Fijian sugar quota under the Commonwealth Sugar Agreement. At present prices, the implementation of this proposal will certainly alleviate the position of the Indians, although allowance must be made for the meeting of the increased quota out of stocks accumulated by the Colonial Sugar Refining Co. Ltd.

economic development. There seems to be a reasonable case for offering Fiji external aid, but, given a better use of land, it seems sound to concentrate this aid on building up the ' infrastructure ', roads, communications and the like, and on improving agricultural productivity. The type of industry that is likely to survive in Fiji, e.g., tourism, service industries, is unlikely to absorb the growing labour force at a sufficient rate to relieve the pressure on land, given existing land policy. In other words, economic development must imply a change in land policy and in the rate of population growth. Moreover, insofar as it is concentrated on improving agriculture, particularly Fijian agriculture, it implies a radical change in the communal system.

The second element represents the ' compromises ' expected from the Indian population. It should be quite clear to the Indians that, with a heavy fall in mortality rates, the eighth or ninth child is no longer a long-term asset but a very definite liability. The commission were surprised to find how little objection was raised by the Indian population to family planning although its practice did not appear to be widespread. Another matter for the Indians to consider is the wisdom of using Australian and New Zealand wage rates as bargaining points in negotiations with employers in an economy in which the *per capita* income is less than £70 sterling per annum. In cases where labour is a complementary factor of production, and an important element in variable costs, it may merely discourage industrial development, and in cases where capital can be substituted for labour, it may merely encourage the substitution of imported labour-saving equipment and cause unemployment.

On the Fijian side, it must be recognised that, if external aid on a considerable scale is to be available, there can be no discrimination in favour of one race, and that the provision of capital brings with it the responsibility and, indeed, the necessity if the capital is to be repaid, of developing their land. Even although the Commission accepted that the policy of demarcating reserves should be upheld so that there could be no suggestion that the Fijian ownership of land was being challenged, if reserves, as well as non-reserve land, are not being used, then the use of the unused land should be leased to other races and a rent paid to the *mataquali* (the family land-holding unit). Furthermore, given the accelerated growth of a money economy and increasing contact with developed economies, it is a matter of necessity for the Fijians to encourage independent farming and possibly co-operative marketing and distribution. The Commission received a great deal of evidence from Fijian commoners which indicated growing

dissatisfaction with the communal system because it entailed servitude and because there was often little relation between individual effort and reward.

The most distressing feature of the problem of race relations in Fiji is the lack of day-to-day contact between the Fijians and Indians, except in special circumstances such as in government service. The principal reason for this has been government acceptance of the objective of preserving 'The Fijian Way of Life'. Carried to its logical conclusion, this policy would perpetuate a form of social organisation which is incompatible with economic development and with democratic government. In practice, it ignores, not only the fact that the Fijians are now in a minority, but also the development of communication with the outside world which has made even Fijians less sure of the value of preserving a rigidified society. Apart from anything else, racial segregation, emphasised in a dual administration and even separate schools for Indians and Fijians, is an expensive operation. The government's task must be to persuade the two races to accept multi-racial local government and educational services. There is no reason to believe that the acceptance of institutions which would demand close co-operation between the races would mean the loss of racial identity. The attractive features of Fijian life, its emphasis on civility, its colourful customs, can surely survive a changeover of this kind, and the respect for the traditional hierarchy would be more firmly based on admiration of the personal qualities of the chiefs than on fear of their power and authority.

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A NOTE ON REGIONAL DIFFERENCES IN PRODUCTIVITY, PROFITABILITY AND GROWTH

Mr. Hart and Mr. MacBean presented data on productivity, profitability and growth of comparable firms and industries in Scotland and the whole of the United Kingdom, in the February 1961 issue of the *Scottish Journal of Political Economy*. They concluded that 'no significant differences have been found, when like-with-like comparisons are made between firms and industries in Scotland and in the United Kingdom.' In this note I hope to show that Messrs. Hart and MacBean used criteria for their comparisons which were unduly favourable to Scotland, and that their conclusions about industrial growth in Scotland may not be correct because of inadequacies in the data they used. However, I hasten to add that, even when the qualifications I will suggest are taken into account, the implications of their results for location of industry policy in Britain are of the first importance.

My main concern is with the sections of their article devoted to growth and productivity, but first a few remarks about their findings on the profitability of Scottish industry.

Profitability

Mr. Hart and Mr. MacBean found that 'differences in average profitability of similar firms and industries in Scotland and the United Kingdom are very small: so small in fact that it is not possible to assert with any confidence that there is a difference.' Profit rate comparisons, however, are not particularly relevant to the problem of deciding 'whether there are significant differences between Scotland and other regions as environments for manufacturing industries.' We expect profit rates to be much the same for comparable industries in all regions as they both determine and reflect the regional allocations of industrial and commercial capital. Northern Ireland, for example, is a region where profit rates appear to be slightly higher than in Great Britain, and this has been interpreted as evidence of a reluctance to invest in Northern Ireland.[1] Presumably there is a greater willingness to invest in Scotland than in Northern Ireland. The similar profit rates in Scotland and the United Kingdom confirms that the capital invested in Scotland is paying its way. But it is not unlikely

[1] K. S. Isles and Norman Cuthbert, *An Economic Survey of Northern Ireland*, Belfast: Her Majesty's Stationery Office, 1957, p. 179.

that profit rates would have been much the same in Scotland and the United Kingdom whether or not firms in Scotland had been flourishing.

Growth

The North of England, Wales and Northern Ireland as well as Scotland suffer from retarded industrial growth, and, because they account for almost 50 per cent. of the labour force, the rate of industrial growth in Scotland does not appear to be too unfavourable when compared with that of the United Kingdom. Comparisons with the Midlands and the Southern and Eastern regions of England only would have revealed, on the criteria adopted by Messrs. Hart and MacBean, that Scotland's economic environment was relatively unfavourable to economic growth.[2] Where possible it is desirable that a region should be compared with other regions and not only with the country as a whole.

The authors found, when growth in employment and fixed assets of similar firms and industries in Scotland and the United Kingdom between 1949 and 1957 were compared, that there were no significant differences between them. At the conclusion of their article they emphasised that their findings do not apply to Scotland and the United Kingdom as a whole: 'provisional findings are that there are significant differences between the performance of manufacturing industry in Scotland and the United Kingdom and that this can probably be attributed to differences in the weighting of industries in Scotland and the U.K. That is, a higher proportion of employment in Scotland is in the less profitable and declining industries than is the case in the United Kingdom as a whole which is the reason why Scotland needs new industries.' Before the data on which the findings about Scotland's satisfactory rate of industrial growth are examined, it may be noted that other economists have not considered Scotland's industrial structure to be particularly unfavourable to growth. Professor Joseph Sykes calculated that between 1949 and 1958 the insured labour force in Scotland would have increased by 6·7 per cent. if each industry group had expanded or contracted at national rates, but the actual increase was only 3·7 per cent.[3] And Professor A. K. Cairncross has noted that 'in some of the rapidly developing industries like the chemical group' there has been a 'slower rate of expansion

[2] Between 1951 and 1959 the labour force in the South of England increased by 9·0 per cent. and in the Midlands by 6·4 per cent., but in the North of England the increase was only 1·4 per cent. and in Scotland 1·8 per cent.

[3] Table IV, 'Employment and Unemployment in Regions and in the Development Areas', *Scottish Journal of Political Economy*, Vol. 6, November 1959.

in industrial production in Scotland than in the rest of the country.'[4] Finally the following observations about the industrial structure of Scotland were made by Dr. C. E. V. Leser: 'Compared with England and Wales, . . . Scotland tends to concentrate on primary rather than on industrial production. The metal trades, which are commonly thought of as a Scottish speciality, turn out to be less strongly represented in Scotland than in the rest of Britain. But on the whole, the differences between Scotland and Britain are not large; it is the similarity rather than the divergences in industrial pattern which is the striking feature . . .' and 'The figures (Employed insured workers in each group of 108 industries, by rate of expansion or decline since 1923, in Scotland and in Great Britain, 1947) confirm the view that Scotland was deficient in the rapidly expanding industries.' At the same time, the situation is put into its proper perspective, for it is apparent that Scotland concentrated to only a very minor extent on declining or stagnating industries. It was the industries with moderate rates of growth—25-100 per cent.—that accounted in 1947 for almost half the total employment in Scotland as in the rest of the country. Even in the industries with faster rates of growth, the proportion of Scottish workers employed was not so very far short of the proportion for Great Britain.[5] The three quotations suggest that it is unlikely that Scotland's retarded industrial growth can be explained entirely by an unduly high proportion of employment in declining industries.

The comparison between growth of industries in Scotland and the United Kingdom was based upon 'industries for which comparisons are possible'; and the authors claimed that the 27 industries and 53 observations for 1949 and 1957 'may be regarded as sample information.' The sample consisted of the following Census of Production industries:—

Brick and Fireclay
Building Materials
Iron and Steel (Melting and Rolling)
Shipbuilding and Repair
Aircraft Manufacture and Repair
Railway Locomotive Shops
Railway Carriages, Wagons and Trains
Iron Foundries
Nail, Screw and Wire Forgings
Wire and Wire Manufacturers
Cotton Spinning and Doubling
Woollen and Worsted
Jute
Hosiery and other Knitteds
Textile Finishing
Leather (Tanning and Dressing)
Tailoring and Dressmaking
Cocoa, Chocolate and Sugar Confectionery
Brewing and Malting
Wholesale Bottling
Spirit Distilling
Timber
Furniture and Upholstering
Paper and Board
Newspaper and Periodical Printing and Publishing
Printing and Publishing, Bookbinding and Engraving
Rubber

[4] 'Recent Economic Trends, Production and Employment in Scotland', *Scottish Journal of Political Economy*, Vol. 5, October, 1958, page 250.

[5] 'Production', *The Scottish Economy*, A. K. Cairncross (ed.), Cambridge, 1954, pages 66 and 75.

It is likely that the sample is biased because the 'confidentiality rule which forbids publication where investigators might be able to identify data relating to specific firms in an industry' tends to favour those industries on which Scotland specialises and on which the United Kingdom does not specialise to anything like the same extent. Industries which have been growing fast in the United Kingdom, e.g. chemicals and allied trades, engineering and electrical goods, motor vehicle manufacture, production of man-made fibres and other manufacturing industries (except rubber) are not included, and industries which are declining less rapidly in Scotland than in the United Kingdom are well represented, e.g. textiles. Also, the sample includes industries which, to some extent, are sheltered from outside competition by high transport costs, e.g. brick and fireclay, timber, brewing and malting and wholesale bottling; their rates of growth are unlikely to be seriously affected by differences in regional environments. Printing and publishing is an industry which one expects to flourish in any well-developed region such as Scotland.

'The annual percentage change in gross fixed assets of Scottish and English firms' and 'the ratio of expenditure on fixed assets to the total gross fixed assets of the previous year' were also used by Mr. Hart and Mr. MacBean to suggest that Scottish firms do not spend less on fixed assets than their English counterparts. This sample, too, may be biased because as the authors state: '. . . it relates only to the firms large enough to have a stock market quotation which, however few in number, earn about 70 per cent. of all profits in manufacturing.' The sample, therefore, relates only to established firms; it tells us nothing about the growth of newly-established firms or the extent to which Scotland is able to compete successfully with other regions for new firms. Growth comparisons which, inadvertently, are restricted to well-established industries and firms cannot be regarded as entirely satisfactory.

It is likely that the costs of establishing firms in the Midlands and South of England are, or are thought by firms to be, less than elsewhere, even though, once firmly established, the costs of similar firms in the various regions do not differ substantially.[6] This factor would prevent businessmen from attempting to establish plants in Scotland except in particularly favourable circumstances. Extra costs could arise because of a need to train labour and attract skilled labour

[6] Substantial grants have been paid by the Board of Trade to firms to persuade them to go to Development Areas. The grants roughly reflect the extra costs involved in establishing plants in places which, in the short-run, have some unattractive features.

in from outside, or there could be special difficulties over housing, transport, site development, channels of distribution etc. But even when there are no extra costs involved, managers and/or their families may simply prefer to live in the South; also, businessmen realise that there is a movement of population from the North to the South and they may in consequence consider that future expansion of their firms would be less difficult in the South than in the North. It is because growth gives rise to expectations of further growth that disparities in growth between regions tend to be perpetuated.

Productivity

Mr. Hart and Mr. MacBean computed unweighted averages from the same industries in Scotland and in the United Kingdom of net output per employee and found no significant difference between the means. The unweighted averages were used to avoid the complications which arise because of differences in industrial structures. The same sample was used as for the growth of industries comparison and it may not give sufficient weight to industries which are poorly represented in Scotland. But this factor is not likely to make much difference to productivity comparisons; it is most unlikely the labour productivity in Scottish industries with only a few large firms is lower than in the others. Their result may fairly be interpreted as proof that the Scottish environment is not detrimental to productivity, although it is possible that in some of the regions in England productivity may, on average, be higher than in Scotland. Their result complements that of Mr. R. J. Nicholson who also used Census of Production data but did not exclude differences in regional industrial structures; Nicholson concluded: 'There was no evidence . . . that any regions were in all cases at a systematic disadvantage for industrial location: in all regions there were some trades in which the net margin per head was greater than the average and, therefore, in all regions scope for the profitable development of industry.'[7]

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[7] 'The Regional Location of Industry: An Empirical Study Based on the Regional Tables of the 1948 Census of Production', *The Economic Journal* Vol. LXVI. September, 1956.

A NOTE ON COST INFLATION IN THE U.S.A.

Introduction

No recent increase in the American price level has been so exhaustively analysed as that which took place in the years 1956-58, for it raised important questions both of economic analysis and of policy. The intractability of this inflation to conventional methods of control which relied heavily on monetary policy produced a protracted debate as to whether it was in some sense a 'new' inflation, brought about by forces different from those that had caused previous inflations.

The debate turned not only on issues of fact, but also on fundamental questions of the nature of inflation, in particular on the role of demand and cost factors. Inflation may take forms quite different from those implied by 'pure demand inflation' or 'pure cost inflation' models. An important example of a mixture of demand and cost forces is the structural effect.[1] In an economy where factors of production are not completely and instantaneously adaptable, it is possible to have significant excess demand in some sectors of the economy at the same time as a deficiency of demand in other sectors. In an economy where prices are perfectly flexible the rise in prices in the sectors of excess demand would be offset by the fall in prices in sectors of deficient demand. However, when many prices are not perfectly flexible, but on the contrary are rigid in face of moderate falls in demand, such a shift in the structure of demand can cause an increase in the price level even in the absence of *general* excess demand. The effect is reinforced by the tendency of wages and other costs to be pulled up in the sector where there is excess demand and for these increases to be transmitted to other sectors, pushing up costs and prices there. It is reasonable to describe this part of the structural effect as 'cost inflation'. The same can be said of the well-known phenomenon of price increases in sectors where the growth of productivity is relatively low, caused by a narrower dispersion of rates of increase in pay than in rates of growth of productivity. Another effect that can be classified as cost inflation is an increase in wage costs that can occur in times of deficiency of demand as a result of long-term wage agreements (which may have been negotiated some time before, when demand tended to excess). One influence on the price level that is

[1] For the use of the term in this context, see T. Wilson, *Inflation*, Blackwell, Oxford, 1960, pp. 105-6.

difficult to classify either under demand inflation or under cost inflation is the changes that occur from time to time in the supply conditions of agricultural and horticultural produce. These have at times led to changes in the price level irrespective of the general level of effective demand, with their effects magnified by means of cost-of-living clauses in wage agreements.

All these influences on prices were operative to varying degrees in 1956-58. Movements in the price level prior to 1956 were sufficiently explained by movements in the level of demand as to give grounds for confidence that price stability could be combined with expansion and high levels of employment through skilful use of measures to regulate demand. But the rise in prices that began in 1956 went a long way in dispelling this confidence. When prices continued to rise even in the absence of convincing evidence of general excess demand and notwithstanding an increasingly restrictive monetary policy, public concern grew. That prices should be rising at a rate of 3 per cent. a year while the growth of output was so slow as to be negligible compelled a revision of thinking about inflation by economists, and by administrators and the general public too. The rise in the Consumer Price Index halted in the summer of 1958, and remained stable for a year. The rise in prices in the second half of 1959 and in 1960 was only half as fast as in 1956-58, but it was enough to cause concern. The problem posed by the inflation of 1956-58 was still unsolved.

Inflation Without General Excess Demand, 1956-58

Aggregate demand expanded rapidly in 1955 but in 1956 the situation changed. By the beginning of the year expenditure on house building, in real terms, had begun to decline, as had output and sales of cars. No further increase in the rate of inventory accumulation took place, and only the demand for capital goods continued to grow. Under the influence of these conflicting trends in demand real output remained stationary for the first three quarters of 1956, rose slightly in the fourth quarter, and then remained at the same level until the onset of the recession in 1957. The slow growth in real demand and output was reflected in trends in employment and hours worked. The number of employees in manufacturing industry rose by only 113,000 in 1956 compared with 971,000 in 1955.[2] The average number of hours worked per week in manufacturing industry fell from 41·2 in

[2] Increase in numbers employed (seasonally adjusted) from December 1954 to December 1955 and December 1955 to December 1956. *Economic Report of the President*, 1957, Table E-22; and *Economic Report of the President*, 1958, Table F-22.

the fourth quarter of 1955 to 40·2 in the second quarter of 1956, recovering only to 40·7 in the fourth quarter.[3] The unemployment rate showed no tendency to decrease, contrary to what one would expect if general excess demand were straining the resources of the economy.[4]

During the first half of 1957 these trends continued. The number of employees in manufacturing industry declined by 182,000,[5] and the average number of hours worked per week also declined; in the second quarter of 1957 it was down to 39·8.[6] Industrial production, seasonally adjusted, declined by 2 per cent. between December 1956 and June 1957.[7] Industrial output was falling below capacity by an increasing margin for expenditure on plant and equipment in 1955 and 1956, valued at constant prices, was 7 per cent. greater than in any other two year period since the War. Unless much of this investment had been mis-directed, there must have been a considerable increase in the total capacity of American industry. This conclusion is supported by such evidence as can be obtained from direct measures of capacity.[8] But despite this margin between capacity and output, prices did not cease to rise.

In one important sector of the economy, on the other hand, excess demand appears to have persisted at least until the end of 1956 and probably into 1957. This was the investment goods sector. New orders for machinery (other than electric) continued to increase until October 1956, and not until January 1957 did new orders fall below deliveries and the volume of unfilled orders begin to decline.[9] Prices in this sector rose rapidly from mid-1955 to mid-1957. This combination of excess demand in a very important sector of the economy with increasing evidence of emerging deficiency of demand in other sectors has led to analysis of the inflation in terms of the structural effect. In a study prepared for the Joint Economic Committee's enquiry into employment, growth and price levels[10] Schultze demonstrated that the

[3] Average of the monthly figures for the three months in the quarters. *Economic Report of the President,* 1957, Table E-23; *Economic Report of the President,* 1958, Table F-23.

[4] It is most unlikely that the percentage of unemployment reached in 1956 represented the minimum attainable in the United States; for in every month of 1956 the rate was well above the average for 1952 and 1953.

[5] *Economic Report of the President,* 1958, Table F-22.

[6] Ibid., Table F-23.

[7] *Federal Reserve Bulletin,* Vol. XLV (1959), p. 1471.

[8] See the chart on p. 11 of *Economic Report of the President,* 1959.

[9] See Thomas A. Wilson, *An Analysis of the Inflation in Machinery Prices,* Study Paper No. 3 for the Joint Economic Committee of the U.S. Congress (Washington, 1959).

[10] C. L. Schultze, *Recent Inflation in the United States,* Study Paper No. 1 for the Joint Economic Committee (Washington, 1959), especially Chapter 5.

dispersion of increases in wages between industries was much narrower than the dispersion of increases in output. In conjunction with the evidence that over a wide area of manufacturing industry prices are cost-determined and insensitive to moderate falls in demand, this is strong evidence for the view that the structural effect is an important part of the explanation of why prices rose in the United States in 1956-58 in the absence of general excess demand.

An additional cause of cost increases suggested by Schultze in the same paper is an increase in indirect costs relative to direct costs, both on account of the use of more capital-intensive techniques and the employment of more indirect labour, especially in research and development. With overhead costs tending to rise in this way total costs per unit of a 'standard' volume of output would rise unless wages rose more slowly than output per wage earner.

The price of steel appears to have exerted an independent upward pressure on the price level, which cannot be accounted for as a by-product of the investment boom.[11] Whether this was the result of the pressure on wage costs exerted by the trade union, or whether it is best accounted for by profit-raising policies of the companies is disputed.[12] What is not open to dispute is that the course of prices and wages in industry has to a substantial extent been independent of changes in demand. The wage agreement negotiated in 1956 provided for increments in the two succeeding years over and above any increases due under the cost-of-living clause. Prices were increased following the increases in labour costs even when, in 1958, the industry was operating at only 60 per cent. of capacity. The contention that cost inflation was exemplified in the increase in steel prices thus appears to be borne out.

Part of the increase in the price level was accounted for by a continuation of the rise in the price of services. The 'services other than rent' component of the Consumer Price Index has risen continuously since the War, come boom come recession. The rate of increase has varied, but has always been positive. From 1948 to 1960 the average rate of increase was 3·6 per cent. a year, the range

[11] O. Eckstein and G. Fromm, *Steel and the Postwar Inflation,* Study Paper No. 2 for the Joint Economic Committee (Washington, 1959).

[12] M. A. Adelman favours an explanation in terms of a step-by-step approach by the industry, behaving as an oligopoly, towards the price at the upper end of the range over which demand is highly inelastic. The step-by-step approach is necessary because of uncertainty as to where the point is. The only function of wage bargaining, in this account, is the distribution of the monopoly profits between the companies and their employees. 'Steel, Administered Prices, and Inflation', *Quarterly Journal of Economics,* February 1961.

being from 6·0 per cent. in 1950-51 to 1·9 per cent. in 1954-55.[13] In part this can be explained by the relatively slow growth of productivity in the service industries and trades (hair-cutting is the standard example). Another part of the explanation lies in the rapid growth in demand for some services and a somewhat slower growth of capacity to supply; medical care is sometimes cited as an example of this.

The price of food was also important in 1956-58. Between 1952 and early 1956 food prices fell by about 5 per cent. But early in 1956 this trend was reversed; in the next two-and-a-quarter years (up to the second quarter of 1958) food prices rose by 9 per cent. In the following year they fell by 3 per cent., and played an important part in stabilising the retail price level once more. The causes lay less in the level of aggregate demand than in circumstances internal to agriculture. Even the weather played a part; the abnormally severe weather in Florida early in 1958 reduced the supply of fresh vegetables and fruit, and the consequent rise in their price is an important part of the reason why the Consumer Price Index continued to rise despite the recession.

A variety of forces were therefore at work in the rise in prices between 1956 and 1958. Although demand factors were important, especially in the investment goods sector, an explanation in terms of excess demand alone could not account for the increase in prices in 1956-58 as it could for the rise in prices associated with the post-war shortages and the Korean war. The general consensus of opinion in the United States tends to support this view, though there is not unanimity.[14]

Policy to Control Inflation

During the inflations of 1946-48 and 1950-51 fiscal policy was the principal means of control, but in 1955-57 its contribution to the restraint of inflation was confined to maintaining the surplus that emerged as a result of the recovery of incomes and profits (and hence of tax revenue) after the recession of 1953-54. The only Federal taxes to be increased were the social security tax and the petrol tax 'earmarked' for the finance of the Interstate highway system; both were part of the programmes that included equivalent increases in expendi-

[13] Calculated from data in *Economic Report of the President*, 1961, Table C-39.

[14] For an analysis in terms of demand only, see R. T. Selden, 'Cost Push versus Demand Pull Inflation', *Journal of Political Economy*, Vol. LXVII (1959), pp. 1-20. He rejects the analytical validity of the distinction between cost and demand inflation primarily because none of the actions that form the process of cost inflation need cause an increase in the velocity of circulation of money.

ture and neither contributed anything towards achieving a larger anti-inflationary surplus. The Administration considered an increase in general taxation unacceptable, even to finance an increase in defence expenditure after 'Sputnik'; and even had the Administration recommended a tax increase in 1956 or 1957 the Congress would have rejected it. Both the Chairman of the Council of Economic Advisers and the Chairman of the Board of Governors of the Federal Reserve System considered that a larger budget surplus would be desirable in 1957; but since tax rates could not be raised or expenditure cut to any significant extent, such an increase in the surplus budgeted for could not be obtained.

The role of monetary policy was in consequence increased. At the end of 1954 the Federal Reserve System began to reverse the policy of 'active ease' which it had adopted to meet the recession, and thereafter for the next two-and-three-quarter years, except for a brief intermission in the spring of 1956, the System's policy became steadily more restrictive. In the twenty-nine months from August 1955 to December 1957 member banks' excess reserves were smaller than their borrowing from the Federal Reserve Banks; and between June 1955 and August 1957 the quantity of money (defined as demand deposits plus currency in circulation, seasonally adjusted) rose by only 2 per cent.,[15] while G.N.P. at current prices rose by 13 per cent. and G.N.P. at constant prices rose by 5 per cent.[16] By all standard tests the Federal Reserve System was pursuing a very restrictive policy. Nevertheless, business investment, in the aggregate, was not seriously restricted, at least until well into 1957. One probable reason is that bank *lending* rose apace, despite the limitation that the Federal Reserve System's policy imposed on banks' total assets and liabilities. Between the end of 1954 and the end of 1956, total bank loans increased by $19·7 billion, an increase of 28 per cent., of which $11·8 billion consisted of loans to business.[17] The banks were enabled to finance this increase in their loans largely by selling Government securities.

The most striking effect of the restrictive monetary policy was on house building, for institutional reasons. The rate of interest on mortgages insured or guaranteed by the Federal Housing Administration and Veterans Administration is limited by statute; and when market rates of interest rise above this limit, the flow of funds through this

[15] *Federal Reserve Bulletin*, Vol. XLIII (1957), p. 825; and monthly statistics in subsequent issues.

[16] *U.S. Income and Output*, Tables 1-3 and 1-5. The increase in G.N.P. cited is from the second quarter of 1955 to the third quarter of 1957.

[17] *Economic Report of the President*, 1958, Table F-41.

very important channel into the finance of house building is much reduced. Indeed, the whole of the drop between 1955 and 1957 in the number of houses started is accounted for by the drop in the number of starts financed by F.H.A.—insured or V.A.—guaranteed mortgages.[18] In addition, there was at the time a substantial volume of complaint that the policy of credit restriction worked with especial severity on small businesses and local governments. The former were believed to be discriminated against in the process of informal credit 'rationing' by the banks; and the latter had greatly increased difficulty in floating bond issues.

Throughout the period the authorities, especially the Federal Reserve System, adhered to the view that the inflation was caused by excess demand and that it was similar, at least in those aspects relevant to public policy, to previous instances of inflation experienced in the United States. President Eisenhower exhorted managements and trade unions to bear in mind the public interest in price stability when taking decisions on prices and wages; but the appeal met with no response and no affirmative action on these lines was recommended by the Administration.

The policy pursued in 1955-57 has been vigorously criticised. Since monetary policy was so prominent, most of the controversy centred on it.[19] It is important, however, to draw a distinction between those effects which are held to follow from a restrictive monetary policy but not from other anti-inflationary measures which operate by influencing the general level of demand, and the much wider issue of the effects of using such measures to check an inflation which contains strong cost elements. Failure to draw this distinction has led to the combination of rising prices and static output in 1956-57 being attributed to monetary policy and the Federal Reserve System; whereas there are no good reasons for believing that the results would have been very different had budgetary policy been relied on to reduce the level of aggregate demand. The well-known view that fiscal policy can be made to bear less heavily on investment than monetary policy does not provide a basis for considering that reliance on fiscal policy would have produced better results in 1956-57. If less of the restriction on demand had fallen on the investment sector and more elsewhere, the immediate result would have been to make the excess demand in the investment sector even worse. The Joint Economic Committee's

[18] This conclusion is demonstrated in detail by W. L. Smith, 'The Impact of Monetary Policy on Residential Construction 1948-58' in *Study of Mortgage Credit* by the Subcommittee on Housing of the Committee on Banking and the Currency, U.S. Senate, 85th Congress, 2nd Session, pp. 244-64.

[19] See, for example, the symposium 'Controversial Issues in Recent Monetary Policy' in *Review of Economics and Statistics*, August 1960.

Staff Report on Employment, Growth, and Price Levels[20] took the view that too much reliance had been placed on monetary policy and that greater use should be made of fiscal policy. But it did not show how a control over the level of aggregate demand achieved by fiscal measures instead of monetary measures would produce better results if employed against an inflation which included strong cost pressures, although its analysis of the causes of the inflation in 1956-58 laid considerable stress on the structural and cost elements.

The principal additional policy that has been widely discussed in the United States is that embodied in Bills introduced in the last Congress by Senator O'Mahoney. The plan is that proposed increases in prices and wages in ' concentrated ' industries should be compulsorily notified to the Government a specified time before being due to take effect. The President would be authorised to hold a public inquiry into the justification for the increases, and to publish the findings. There would be no legally enforceable decision, so that weight of public opinion would be the only sanction to ensure that the parties concerned took due notice of the findings of the inquiry. The companies and trade unions concerned strongly opposed this scheme, as did the Eisenhower Administration,[21] and it has not yet got as far as being voted on in either the House of Representatives or the Senate.

A. E. HOLMANS

University of Glasgow

[20] Washington, 1959.

[21] Deflation, not inflation, has been the immediate problem since President Kennedy's Administration took office, and as a result there has been no expression of his Administration's opinion about this or other measures for controlling inflation.

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CURRENT TOPICS

Dr. M. T. Rankin

As the *Journal* went to Press we learned with sadness of the death on 27th September of Dr. Mary T. Rankin, a vice-president of the Society and Reader Emeritus in Political Economy in the University of Edinburgh. An appreciation will be published in a coming number of the *Journal.*

The Burn

The programme for the eleventh annual conference of the Scottish University economists at The Burn, Edzell, from the 19th to 21st September, included papers by I. G. Stewart (Edinburgh) on 'Customs Union in East and Central Africa', P. L. Payne (Glasgow) on 'The Savings Bank of Glasgow in the Nineteenth Century', K. J. W. Alexander (Aberdeen) on 'Some Economic Problems of the Scrap Metal Market', and Professor D. J. Robertson (Glasgow) on 'The Current Economic Situation'.

Branch Meetings

At the time of going to press the following programmes had been arranged for the coming winter by the local branches. Local secretaries (to whom enquiries and suggestions should be directed) will be issuing notices to members in their areas.

EDINBURGH

23rd October, 1961—'The Wages-Earnings Gap'—L. C. Wright.
27th November, 1961—'Some Problems of Industrial Relations in Nationalized Industries'—J. O. Blair-Cunynghame.
Both meetings will be held at 27 Queen Street, at 7.45 p.m. (Enquiries to Dr. T. L. Johnston, 42 George Square, Edinburgh, 8.)

GLASGOW

(Secretary: J. B. K. Hunter, Department of Political Economy, The University, Glasgow, W.2.)
17th October, 1961—'The Future of the I.M.F.'—Hon. A. Maxwell Stamp.
14th November, 1961—'On Being an Economic Adviser'—Sir Robert Hall.
7th December, 1961—'Planning in Pakistan'—J. R. Parkinson.
18th January, 1962—'A Survey of Econometrics'—G. R. Fisher.
15th February, 1962—'Economic Policy for Agriculture'—R. G. L. McCrone and G. F. B. Houston.
15th March, 1962—'The Government of Trade Unions'—B. C. Roberts.
Meetings will be held at 7.30 p.m. in George Service House, 11 University Garden (off University Avenue, W.2). Details of each meeting in turn will be circulated to members.

ABERDEEN

(Secretary: P. R. Fisk, 74 Tillydrone Avenue, Aberdeen.)
25th October, 1961—'Britain and the Common Market.'
3rd November, 1961—'Training in Industry'—W. McL. Williams.
Other meetings are being arranged, and details will be sent to members.

ST ANDREWS

Meetings are arranged in conjunction with the Political Economy Club of the University. Details from Professor J. W. Nisbet, Department of Political Economy, St Salvator's College, St Andrews.

DUNDEE

(Secretary: K. R. Hutchings, Dept. of Economics, Queen's College, Dundee.)

BOOKS RECEIVED

A Socialist Empire, The Incas of Peru, Louis Baudin; D. Van Nostrand Co. Inc., Princeton, New Jersey; $8.00.

Power Time—Theory of Value & Political Implications, Rudolf Cais; £A1. 0. 0.

Gold & International Liquidity, Dr. W. J. Busschau; South African Institute of International Affairs.

Government Regulation of Industrial Relations, H. Evans.

Local Impact of Foreign Trade; National Planning Association; $7.00.

Rathbones of Liverpool, 1845-73, Sheila Marriner; Liverpool University Press; 30/-.

Problems of American Economic Growth, Morris Bruce; Oxford University Press, 20/-.

Potentials of the American Economy, Selected Essays, Sumner H. Slichter; Harvard University Press.

Preliminary Report on the Sixteenth Census of Scotland 1961; HMSO; 5/-.

The Problem of the International Monetary Liquidity; Xenophon Zolotas.

Commercial Credit Insurance as a Management Tool, C. W. Phelps; Commercial Credit Company.

The Theory of Economic Development, J. A. Schumpeter; Oxford University Press; 8s. 6d.

Social Ownership & Control, A Co-operative Party Policy Statement; 1s. 3d.

Hungary As We Saw It, Report of a Co-operative Party Delegation; 2s 6d.

Relativism and the Study of Man, Editor Helmut Schoeck; D. Van Nostrand Co. Ltd.; 49s.

Portugals Finanzen, Ralph von Gersdorff; DM 18.80.

Radical Reactions, Ed. Ralph Harris; Hutchinson & Co. (Publishers) Ltd.; 25s.

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